Comptroller of the Currency
Administrator of National Banks

QUARTERLY JOURNAL

VOLUME TWELVE

NUMBER 2

Office of the Comptroller of the Currency
June 1993

Comptroller	Eugene A. Ludwig

Policy Group

Chief of Staff [illegible]	William Paul Bowden, Jr.
Senior Deputy Comptroller for Administration	Judith A. Walter
Senior Deputy Comptroller for Bank Supervision Operations	Stephen R. Steinbrink
Senior Deputy Comptroller for Bank Supervision Policy	Susan F. Krause
Senior Deputy Comptroller for Corporate Policy and Economic Analysis	Frank Maguire (Acting)
Senior Deputy Comptroller for Legislative and Public Affairs	Frank Maguire
Special Advisor to the Comptroller	Konrad S. Alt
Special Advisor to the Comptroller	David P. Apgar

Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller who is appointed by the President, with the advice and consent of the Senate, for a 5-year term.

The OCC regulates national banks by its power to:

- Examine the banks;
- Approve or deny applications for new charters, branches, capital or other changes in corporate or banking structure;
- Take supervisory actions against banks that do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing banking practices, and issuance of cease and desist orders; and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure.

The OCC divides the United States into six geographical districts, with each headed by a Deputy Comptroller.

The OCC is funded through assessments on the assets of national banks.

The Comptroller

Eugene A. Ludwig took the oath of office on April 5, 1993, as the 27th Comptroller of the Currency.

By statute, the Comptroller serves a concurrent term as Director of the Federal Deposit Insurance Corporation and the Neighborhood Reinvestment Corporation. The Comptroller also serves as a member of the Federal Financial Institutions Examination Council.

Mr. Ludwig joined the OCC from the law firm of Covington and Burling in Washington, D.C., where he was a partner beginning in 1981. He specialized in intellectual property law, banking, and international trade. He has written numerous articles on banking and finance for scholarly journals and trade publications, and served as a guest lecturer at Yale and Harvard Law Schools and Georgetown University's International Law Institute.

Mr. Ludwig grew up in York, Pennsylvania, where he attended York Suburban High School. He earned a B.A. magna cum laude from Haverford College in Pennsylvania. He received a Keasbey scholarship to attend Oxford University, where he studied politics, philosophy, and economics and earned a B.A. and M.A. He holds an LL.B. from Yale University, where he served as editor of the Yale Law Journal and chairman of Yale Legislative Services.

The Quarterly Journal is [illegible] for the most significant actions and policies of the Office of the Comptroller of the Currency. [illegible] March, June, September and December. The *Quarterly Journal* includes [illegible] selected speeches and testimony, material released in the interpretive [illegible] of interest to the administration of national banks. Suggestions [illegible] Rebecca Eggleston, Senior Writer/Editor, Communications Division. [illegible] is available for $60 a year by writing to [illegible]

Quarterly Journal

Office of the Comptroller of the Currency

Eugene A. Ludwig

Comptroller of the Currency

The Administrator of National Banks

Contents

	Page
Operations of National Banks	1
Interagency Policy Statement on Credit Availability	11
Interagency Policy Statement on Documentation of Loans	13
Recent Corporate Decisions	15
Speeches and Congressional Testimony	17
Interpretations — January 1 to March 31, 1993	41
Mergers — January 1 to March 31, 1993	57
Tables on the Structure of the National Banking System	75
Statistical Tables on the Financial Performance of National Banks	79
Report of Independent Accountants on the Office of the Comptroller of the Currency — Financial Statements, 1992	95
Index	115

Operations of National Banks

National banks earned record profits in the first quarter of 1993, driven by improved credit quality and accounting rule changes that raised extraordinary income to its highest level since banks began reporting extraordinary income in 1969. Preliminary operating results of 3,513 national banks indicate that the earnings strength and improvement in credit quality is widespread across regions and size groups and that national banks continue to use the high profits to improve their capital ratios. However, loan volume continued to decline and assets remained stagnate.

Profits High and Widespread

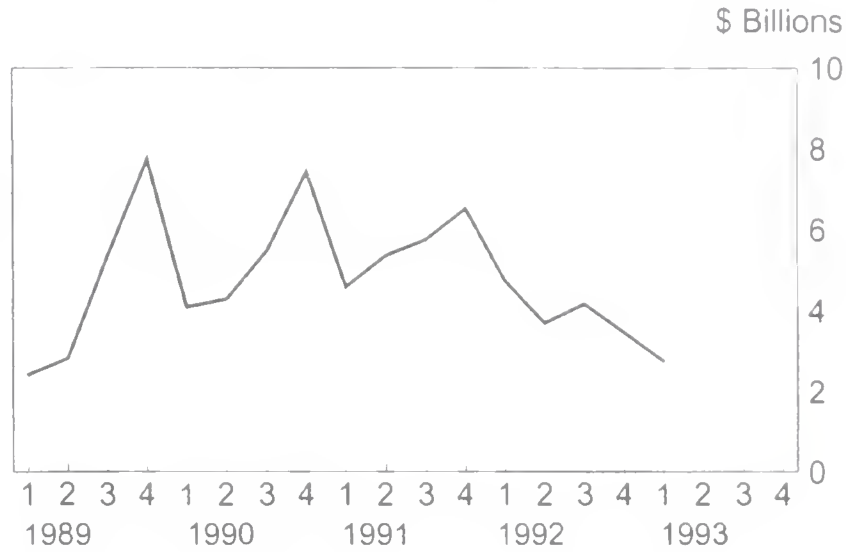
Due to improved credit quality and accounting rule changes, national banks' aggregate profits increased to a record $6.31 billion in the first quarter of 1993, $1.96 billion more than fourth quarter 1992 earnings, and $1.67 billion higher than the previous record set in the third quarter of 1992. National banks in every region of the country and size group reported higher aggregate earnings in the first quarter of 1993 than in the first quarter of 1992, even excluding extraordinary income.

Quarterly net income

Source: quarterly call reports

- Provisions for loan and lease losses fell to $2.77 billion from $3.47 billion in the fourth quarter of 1992, and are now at their lowest level since the $2.42 billion in provisioning in the first quarter of 1989.

Quarterly loan loss provisions



Source: quarterly call reports

- Because of accounting rule changes, aggregate net extraordinary income soared to $1.53 billion in the first quarter of 1993, more than 10-times larger than its quarterly average over the last four years.

- Net interest income of $19.9 billion was down slightly from $20.3 billion for the fourth quarter of 1992, and the quarterly net interest margin declined slightly to 4.04 percent from 4.10 percent. Despite those declines, both net interest income and the net interest margin remain above historical levels.

- For the first quarter of 1993, totaled on the sale of investment securities totalled $0.53 billion, $135 million higher than the gains reported in the fourth quarter of 1992, but lower than the $0.68 billion in gains reported for the first quarter of 1992.

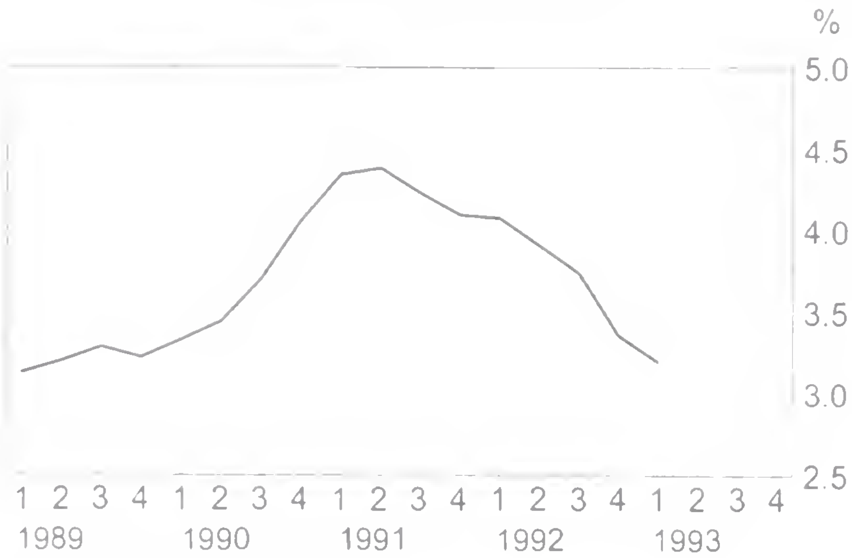
- In the first quarter of 1993, 217, or 6 percent, of national banks reported losses, the lowest percentage of national banks with losses in over four years.

Credit Quality Improves

The increase in national bank earnings was accompanied by a general improvement in aggregate indicators of credit quality

- Total noncurrent loans fell $2 32 billion, reducing the ratio of noncurrent loans to loans to 3.20 percent, the lowest noncurrent ratio since the first quarter of 1989

Noncurrent loans to loans



Source. quarterly call reports

- Despite lower provisions to the loan loss reserve, the ratio of reserves to noncurrent loans increased to 87.11 percent. The reserves-to-noncurrent loans ratio has risen every quarter since the second quarter of 1991, when it stood at 60.35 percent.

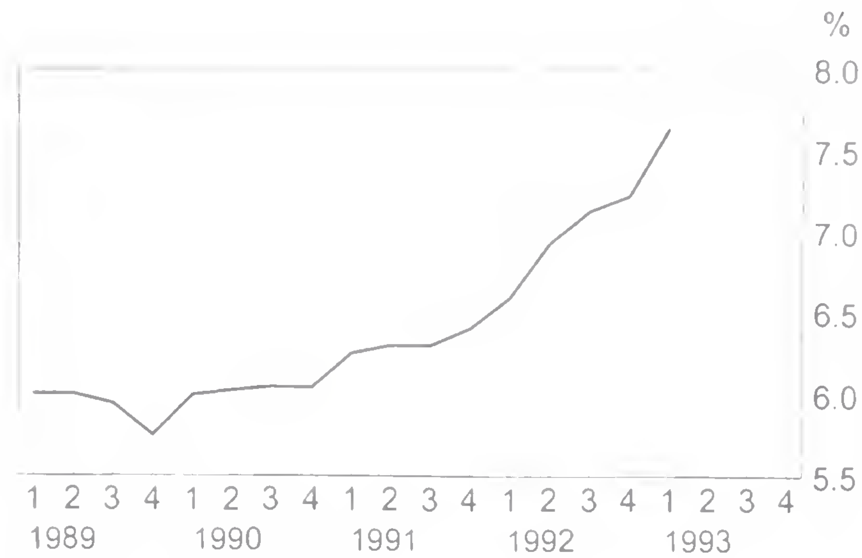
- Net loan losses on all types of loans decreased and total net loan losses fell to $2.46 billion for the first quarter, down 40 percent from the first quarter of last year

Capitalization Still Rising

Continuing a three-year trend, national banks increased their capital in the first quarter of 1993.

- National banks added $6.46 billion to their equity capital bringing the total to $151 17 billion and raising the ratio of equity capital to assets to 7 64 percent

Equity capital to assets



Source. quarterly call reports

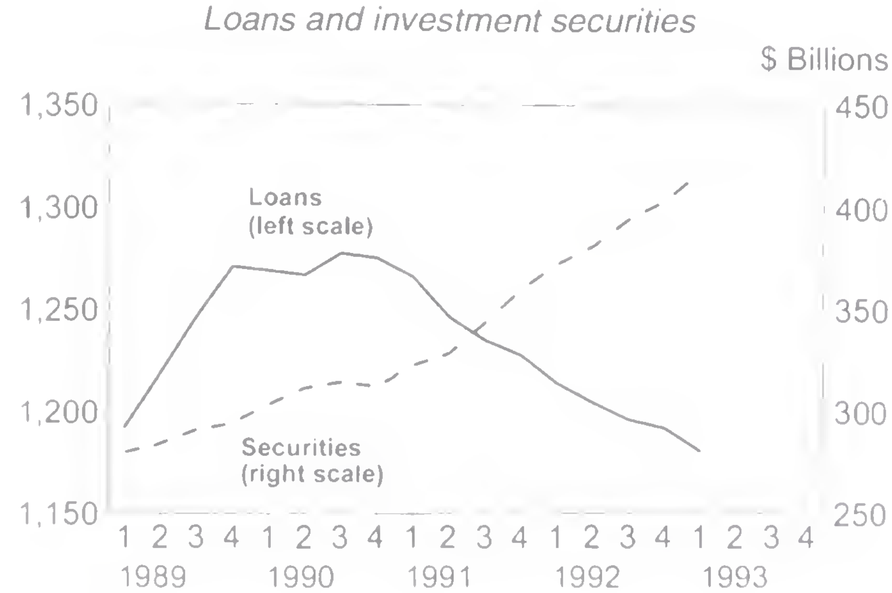
- Regulatory capital ratios also improved in the first quarter. Over the last year, the aggregate leverage ratio rose to 7.08 percent from 6.25 percent, and the aggregate risk-based capital ratio rose to 12.04 percent from 10.37 percent.

Portfolio Shift Continues, Assets Stagnate

As in the previous three years, the composition of banks' assets during the first quarter continued to change and total assets of national banks remained within a narrow band.

- Total loans outstanding decreased $11.42 billion in the first quarter, the tenth consecutive quarterly decline, and total investment securities rose $14.97 billion, the ninth straight quarterly increase.

Loans and investment securities



Source quarterly call reports

- Over the last three years, the aggregate loans-to-assets ratio for national banks declined to 59.66 percent from 64.31 percent, and the aggregate investment securities-to-assets ratio increased to 21.15 percent from 15.40 percent.

- Total national bank assets have fluctuated less than $50 billion over the last three years. After increasing $27.01 billion in the previous quarter, national bank assets fell $24.13 billion to $1.98 trillion in the first quarter of 1993. In contrast, assets of state-chartered banks rose $27.65 billion to $1.48 trillion in first quarter of 1993, after falling $3.10 billion in the previous quarter.

- National bank assets fell in every region but the Southeast in the first quarter, and the Northeast region accounted for 42 percent of the total decrease in national bank assets.

Richard Nisenson
Banking Research and Statistics

Aggregate performance data for national banks
(Data through first quarter of each year)

	1988	1989	1990	1991	1992	1993
Industry Structure						
Number of Banks	4528	4286	4103	3945	3732	3513
Number of Banks with Losses	700	508	528	509	314	217
Number of Failed/Assisted Banks	12	33	22	13	9	6
Income Statement ($ Billions)						
Year-to-Date						
Net Income	2.20	4.32	3.31	2.94	3.94	6.31
Net Interest Income	15.06	16.66	16.83	17.25	18.95	19.93
Noninterest Income	6.85	7.37	8.60	8.88	9.82	10.62
Noninterest Expense	15.18	15.73	16.93	17.89	19.16	21.08
Loan Loss Provision	3.40	2.42	4.08	4.58	4.75	2.77
Securities Gains, Net	0.21	0.02	0.07	0.27	0.68	0.53
Extraordinary Income, Net	0.06	0.16	0.11	0.34	0.11	1.53
Net Loan Loss	2.78	2.56	4.36	4.15	4.11	2.46
First Quarter						
Net Income	2.20	4.32	3.31	2.94	3.94	6.31
Net Interest Income	15.06	16.66	16.83	17.25	18.95	19.93
Noninterest Income	6.85	7.37	8.60	8.88	9.82	10.62
Noninterest Expense	15.18	15.73	16.93	17.89	19.16	21.08
Loan Loss Provision	3.40	2.42	4.08	4.58	4.75	2.77
Securities Gains, Net	0.21	0.02	0.07	0.27	0.68	0.53
Extraordinary Income, Net	0.06	0.16	0.11	0.34	0.11	1.53
Net Loan Loss	2.78	2.56	4.36	4.15	4.11	2.46
Performance Ratios (%)						
Year-to-Date						
Return on Equity	8.81	15.71	11.44	9.70	12.23	17.18
Return on Assets	0.50	0.93	0.68	0.60	0.80	1.28
Net Interest Margin	3.40	3.61	3.43	3.51	3.83	4.04
Loss Provision to Loans	1.21	0.82	1.29	1.44	1.56	0.94
Net Loan Loss to Loans	0.99	0.86	1.38	1.31	1.35	0.84
Noncurrent Loans to Loans	3.78	3.13	3.33	4.35	4.08	3.20
Loss Reserves to Loans	2.92	2.43	2.52	2.64	2.83	2.78
Loss Reserves to Noncurrent Loans	77.31	77.76	75.57	60.75	69.48	87.11
Loans to Assets	63.67	64.30	64.31	64.82	61.27	59.66
Loans to Deposits	84.46	84.09	84.76	82.96	77.82	77.91
Equity to Assets	5.66	6.01	6.00	6.26	6.59	7.64
Estimated Leverage Ratio	N/A	N/A	5.79	5.89	6.25	7.08
Estimated Risk-Based Capital Ratio	N/A	N/A	8.64	9.33	10.37	12.04

Note: First quarter 1993 data are preliminary
Banking Research and Statistics

Aggregate condition data for national banks
(Data through first quarter of each year)

	1988	1989	1990	1991	1992	1993
Balance Sheet ($ Billions)						
Assets	1772.33	1854 19	1973.43	1953.58	1982 14	1978 80
Loans	1128.51	1192.26	1269.12	1266.28	1214 37	1180.56
Real Estate (RE)	368.22	422.51	475.14	504.24	503.05	492 07
Commercial & Industrial (C&I)	374.36	377.16	391.55	379.62	343.37	331 88
Consumer (Cnsmr)	215.33	230.20	243.36	232.80	226.84	224 53
Noncurrent Loans	42.65	37.32	42.30	55.05	49.55	37 74
Noncurrent RE Loans	12.19	11.73	17.18	28.12	27.06	22 05
Noncurrent C&I Loans	17.12	13.60	14.08	18.57	15.33	10.13
Noncurrent Cnsmr Loans	2.67	2.66	3.05	3.33	3.40	3.06
Other Real Estate Owned	6.85	7.17	9.14	16.44	18.42	16.38
Investment Securities	272.04	279.81	303.82	323.09	372.48	418.56
Total Liabilities	1671.89	1742.75	1854.95	1831.34	1851 41	1827 63
Total Deposits	1336.16	1417.89	1497.38	1526.34	1560.53	1515.32
Domestic Deposits	1132.04	1219.58	1291.36	1332.53	1364.99	1322.54
Loan Loss Reserve	32.97	29.02	31.97	33.45	34.42	32 87
Equity Capital	100.37	111.36	118.40	122.24	130.72	151.17
Total Capital	N/A	N/A	142.80	151.58	158.71	179.65
Balance Sheet Changes ($ Billions)						
Year-to-Date Changes						
Assets	2.42	8.02	-2.64	-30.31	0.73	-24 13
Loans	15.84	7.66	-1.91	-9.23	-13.52	-11 42
Noncurrent Loans	0.60	1.27	1.32	3.26	-0.80	-2.32
Other Real Estate Owned	0.66	0.43	-0.07	1.99	0.76	-0.76
Investment Securities	-0.37	4.67	9.49	10.28	12.47	14 97
Total Liabilities	1.83	4.81	-7.36	-32.64	-3.03	-30.59
Total Deposits	-12.32	2.80	-5.37	-29.26	-9.55	-33.29
Loan Loss Reserve	0.77	-0.80	-0.39	-0.69	0.69	-0.06
Equity Capital	0.59	3.21	4.73	2.32	3.77	6.46
Total Capital	N/A	N/A	N/A	2.51	3.78	6.68
First Quarter Changes						
Assets	2.42	8.02	-2.64	-30.31	0.73	-24.13
Loans	15.84	7.66	-1.91	-9.23	-13.52	-11.42
Noncurrent Loans	0.60	1.27	1.32	3.26	-0.80	-2.32
Other Real Estate Owned	0.66	0.43	-0.07	1.99	0.76	-0.76
Investment Securities	-0.37	4.67	9.49	10.28	12.47	14.97
Total Liabilities	1.83	4.81	-7.36	-32.64	-3.03	-30.59
Total Deposits	-12.32	2.80	-5.37	-29.26	-9 55	-33.29
Loan Loss Reserve	0.77	-0.80	-0.39	-0.69	0 69	-0.06
Equity Capital	0.59	3.21	4.73	2.32	3.77	6.46
Total Capital	N/A	N/A	N/A	2.51	3.78	6.68

Note: First quarter 1993 data are preliminary.
Banking Research and Statistics

Aggregate performance data for national banks by size
(Data through first quarter of each year)

	Under $100M		$100M-$1B		$1B-$10B		Over $10B		Total	
	1992	1993	1992	1993	1992	1993	1992	1993	1992	1993
Industry Structure										
Number of Banks	2341	2179	1186	1131	169	165	36	38	3732	3513
Number of Banks with Losses	224	157	74	48	11	10	5	2	314	217
Number of Failed/Assisted Banks	9	4	0	2	0	0	0	0	9	6
Income Statement ($ Billions)										
Year-to-Date										
Net Income	0.28	0.32	0.80	0.98	1.58	1.76	1.29	3.26	3.94	6.31
Net Interest Income	1.11	1.10	3.25	3.26	6.31	5.90	8.28	9.68	18.95	19.93
Noninterest Income	0.33	0.30	0.95	1.04	3.48	3.36	5.06	5.92	9.82	10.62
Noninterest Expense	1.01	0.96	2.73	2.77	6.32	6.00	9.09	11.34	19.16	21.08
Loan Loss Provision	0.07	0.05	0.41	0.28	1.41	0.90	2.86	1.54	4.75	2.77
Securities Gains, Net	0.03	0.02	0.04	0.06	0.17	0.11	0.43	0.34	0.68	0.53
Extraordinary Income, Net	0.01	0.03	0.01	0.08	0.05	0.11	0.04	1.31	0.11	1.53
Net Loan Loss	0.06	0.04	0.32	0.20	1.35	0.76	2.37	1.47	4.11	2.46
First Quarter										
Net Income	0.28	0.32	0.80	0.98	1.58	1.76	1.29	3.26	3.94	6.31
Net Interest Income	1.11	1.10	3.25	3.26	6.31	5.90	8.28	9.68	18.95	19.93
Noninterest Income	0.33	0.30	0.95	1.04	3.48	3.36	5.06	5.92	9.82	10.62
Noninterest Expense	1.01	0.96	2.73	2.77	6.32	6.00	9.09	11.34	19.16	21.08
Loan Loss Provision	0.07	0.05	0.41	0.28	1.41	0.90	2.86	1.54	4.75	2.77
Securities Gains, Net	0.03	0.02	0.04	0.06	0.17	0.11	0.43	0.34	0.68	0.53
Extraordinary Income, Net	0.01	0.03	0.01	0.08	0.05	0.11	0.04	1.31	0.11	1.53
Net Loan Loss	0.06	0.04	0.32	0.20	1.35	0.76	2.37	1.47	4.11	2.46
Performance Ratios (%)										
Year-to-Date										
Return on Equity	11.72	13.34	13.46	15.77	15.53	17.00	9.36	18.28	12.23	17.18
Return on Assets	1.05	1.24	1.03	1.31	1.05	1.31	0.53	1.26	0.80	1.28
Net Interest Margin	4.21	4.31	4.22	4.36	4.20	4.38	3.43	3.74	3.83	4.04
Loss Provision to Loans	0.53	0.38	0.92	0.65	1.53	1.13	1.84	0.97	1.56	0.94
Net Loan Loss to Loans	0.46	0.33	0.73	0.46	1.46	0.95	1.53	0.92	1.35	0.84
Noncurrent Loans to Loans	2.17	1.81	2.21	1.75	3.35	2.48	5.22	4.05	4.08	3.20
Loss Reserves to Loans	1.96	1.90	1.97	2.01	2.97	3.04	3.08	2.93	2.83	2.78
Loss Reserves to Noncurrent Loans	90.02	104.72	89.17	114.70	88.66	122.50	58.98	72.41	69.48	87.11
Loans to Assets	49.20	49.67	57.57	57.05	61.34	59.68	63.72	61.37	61.27	59.66
Loans to Deposits	55.30	56.10	66.62	67.05	78.88	78.26	84.11	83.91	77.82	77.91
Equity to Assets	9.07	9.44	7.76	8.48	6.88	7.88	5.78	7.10	6.59	7.64
Estimated Leverage Ratio	8.97	9.35	7.61	8.25	6.54	7.41	5.36	6.37	6.25	7.08
Estimated Risk-Based Capital Ratio	17.19	18.03	13.27	14.60	10.62	12.55	9.09	10.89	10.37	12.04

Note: First quarter 1993 data are preliminary.
Banking Research and Statistics

Aggregate condition data for national banks by size
(Data through first quarter of each year)

	Under $100M		*$100M-$1B*		*$1B-$10B*		*Over $10B*		*Total*	
	1992	*1993*	*1992*	*1993*	*1992*	*1993*	*1992*	*1993*	*1992*	*1993*
Balance Sheet ($ Billions)										
Assets	105.49	101.72	309.09	297.67	600.54	537.82	967.02	1041.59	1982.14	1978.8[illegible]
Loans	51.90	50.52	177.94	169.83	368.35	320.99	616.18	639.22	1214.37	1180.56
Real Estate (RE)	27.49	27.84	93.97	92.76	145.38	129.17	236.21	242.30	503.05	492.07
Commercial & Industrial (C&I)	9.56	8.96	34.45	30.84	90.82	77.00	208.53	215.09	343.37	331.88
Consumer (Cnsmr)	9.45	8.63	38.97	37.26	96.02	86.98	82.40	91.66	226.84	224.53
Noncurrent Loans	1.13	0.91	3.93	2.98	12.36	7.97	32.14	25.87	49.55	37.74
Noncurrent RE Loans	0.55	0.46	2.20	1.67	6.78	4.66	17.52	15.25	27.06	22.05
Noncurrent C&I Loans	0.49	0.38	1.25	0.98	3.37	1.91	10.23	6.87	15.33	10.13
Noncurrent Cnsmr Loans	0.09	0.07	0.35	0.27	1.47	1.10	1.49	1.61	3.40	3.06
Other Real Estate Owned	0.67	0.55	1.87	1.49	5.41	3.38	10.46	10.96	18.42	16.38
Investment Securities	36.83	36.43	85.15	88.19	126.93	134.01	123.58	159.92	372.48	418.56
Total Liabilities	95.92	92.13	285.11	272.41	559.21	495.41	911.17	967.69	1851.41	1827.63
Total Deposits	93.84	90.05	267.12	253.30	466.97	410.16	732.61	761.81	1560.53	1515.32
Domestic Deposits	93.81	90.02	266.72	253.04	459.10	403.69	545.36	575.79	1364.99	1322.54
Loan Loss Reserve	1.01	0.96	3.50	3.42	10.95	9.77	18.95	18.73	34.42	32.87
Equity Capital	9.57	9.60	23.98	25.26	41.33	42.41	55.85	73.90	130.72	151.17
Total Capital	10.19	10.19	26.07	27.03	46.17	47.37	76.28	95.05	158.71	179.65
Balance Sheet Changes ($ Billions)										
Year-to-Date Changes										
Assets	-2.27	-0.16	1.80	-9.64	-8.39	-32.79	9.59	18.46	0.73	-24.13
Loans	-1.81	0.25	-0.14	-4.74	-8.82	-12.05	-2.75	5.12	-13.52	-11.42
Noncurrent Loans	0.01	0.01	0.06	-0.22	-0.41	-0.68	-0.46	-1.44	0.80	2.32
Other Real Estate Owned	-0.03	-0.01	0.00	-0.15	0.04	-0.32	0.75	-0.28	0.76	-0.76
Investment Securities	0.24	0.75	3.61	0.47	3.86	-1.00	4.76	14.76	12.47	14.97
Total Liabilities	-2.34	-0.34	1.12	-10.28	-9.52	-32.92	7.71	12.95	3.03	30.59
Total Deposits	-2.05	-0.34	2.29	-10.59	-8.28	-29.29	-1.51	6.93	-9.55	-33.29
Loan Loss Reserve	-0.02	0.01	0.09	-0.03	0.04	-0.34	0.58	0.30	0.69	-0.06
Equity Capital	0.07	0.17	0.68	0.65	1.13	0.13	1.88	5.51	3.77	6.46
Total Capital	-0.02	0.21	0.67	0.53	1.03	0.85	2.10	5.08	3.78	6.68
First Quarter Changes										
Assets	-2.27	-0.16	1.80	-9.64	-8.39	-32.79	9.59	18.46	0.73	24.13
Loans	-1.81	0.25	-0.14	-4.74	-8.82	-12.05	-2.75	5.12	-13.52	11.42
Noncurrent Loans	0.01	0.01	0.06	-0.22	-0.41	-0.68	-0.46	1.44	-0.80	2.32
Other Real Estate Owned	-0.03	-0.01	0.00	-0.15	0.04	-0.32	0.75	-0.28	0.76	-0.76
Investment Securities	0.24	0.75	3.61	0.47	3.86	-1.00	4.76	14.76	12.47	14.97
Total Liabilities	-2.34	-0.34	1.12	-10.28	-9.52	-32.92	7.71	12.95	-3.03	-30.59
Total Deposits	-2.05	-0.34	2.29	-10.59	-8.28	-29.29	-1.51	6.93	9.55	33.29
Loan Loss Reserve	-0.02	0.01	0.09	-0.03	0.04	-0.34	0.58	0.30	0.69	0.06
Equity Capital	0.07	0.17	0.68	0.65	1.13	0.13	1.88	5.51	3.77	6.46
Total Capital	-0.02	0.21	0.67	0.53	1.03	0.85	2.10	5.08	3.78	6.68

Note: First quarter 1993 data are preliminary. 0.00 indicates an amount of less than $5 million.
Banking Research and Statistics

Aggregate performance data for national banks by region
(Data through first quarter of 1993)

	Northeastern	Southeastern	Central	Midwestern	Southwestern	Western	Total
Industry Structure							
Number of Banks	386	489	737	616	831	454	3513
Number of Banks with Losses	24	38	30	17	42	66	217
Number of Failed/Assisted Banks	2	0	0	0	2	2	6
Income Statement ($ Billions)							
Year-to-Date							
Net Income	1.83	0.91	1.12	0.49	0.97	1.00	6.31
Net Interest Income	6.36	3.19	3.37	1.35	1.79	3.87	19.93
Noninterest Income	3.74	1.32	1.48	1.04	0.83	2.20	10.62
Noninterest Expense	7.74	3.01	3.06	1.48	1.89	3.90	21.08
Loan Loss Provision	1.23	0.28	0.42	0.20	0.04	0.61	2.77
Securities Gains, Net	0.33	0.05	0.05	0.03	0.04	0.03	0.53
Extraordinary Income, Net	0.88	0.04	0.12	0.00	0.46	0.02	1.53
Net Loan Loss	1.18	0.19	0.30	0.15	0.04	0.60	2.46
First Quarter							
Net Income	1.83	0.91	1.12	0.49	0.97	1.00	6.31
Net Interest Income	6.36	3.19	3.37	1.35	1.79	3.87	19.93
Noninterest Income	3.74	1.32	1.48	1.04	0.83	2.20	10.62
Noninterest Expense	7.74	3.01	3.06	1.48	1.89	3.90	21.08
Loan Loss Provision	1.23	0.28	0.42	0.20	0.04	0.61	2.77
Securities Gains, Net	0.33	0.05	0.05	0.03	0.04	0.03	0.53
Extraordinary Income, Net	0.88	0.04	0.12	0.00	0.46	0.02	1.53
Net Loan Loss	1.18	0.19	0.30	0.15	0.04	0.60	2.46
Performance Ratios (%)							
Year-to-Date							
Return on Equity	16.39	15.42	17.18	17.75	27.08	14.56	17.18
Return on Assets	1.11	1.11	1.35	1.46	2.03	1.22	1.28
Net Interest Margin	3.85	3.88	4.05	4.05	3.74	4.73	4.04
Loss Provision to Loans	1.24	0.58	0.84	1.04	0.18	1.08	0.94
Net Loan Loss to Loans	1.19	0.40	0.59	0.78	0.20	1.07	0.84
Noncurrent Loans to Loans	4.69	2.09	1.89	1.51	1.72	3.83	3.20
Loss Reserves to Loans	3.31	2.10	2.12	2.16	2.32	3.42	2.78
Loss Reserves to Noncurrent Loans	70.63	100.76	112.49	143.23	134.97	89.47	87.11
Loans to Assets	60.17	58.13	59.96	58.33	45.87	68.73	59.66
Loans to Deposits	81.07	78.04	78.97	76.32	54.28	86.47	77.91
Equity to Assets	6.94	7.29	8.05	8.42	7.84	8.57	7.64
Estimated Leverage Ratio	6.55	7.06	7.68	7.99	7.16	7.19	7.08
Estimated Risk-Based Capital Ratio	11.45	11.75	12.18	13.59	13.80	12.03	12.04

Note: First quarter 1993 data are preliminary
Banking Research and Statistics

Aggregate condition for national banks by region
(Data through first quarter of 1993)

	Northeastern	*Southeastern*	*Central*	*Midwestern*	*Southwestern*	*Western*	*Total*
Balance Sheet ($ Billions)							
Assets	663.76	331.99	331.42	131.60	195.59	324.45	1978.80
Loans	399.39	192.99	198.72	76.76	89.72	222.98	1180.56
Real Estate (RE)	149.37	94.74	77.60	29.99	36.85	103.52	492.07
Commercial & Industrial (C&I)	127.00	47.00	58.65	18.43	26.44	54.36	331.88
Consumer (Cnsmr)	68.37	35.18	42.61	17.48	18.31	42.57	224.53
Noncurrent Loans	18.73	4.03	3.75	1.16	1.54	8.53	37.74
Noncurrent RE Loans	10.78	2.73	1.76	0.38	0.81	5.59	22.05
Noncurrent C&I Loans	4.73	1.00	1.28	0.40	0.55	2.17	10.13
Noncurrent Cnsmr Loans	1.61	0.20	0.32	0.33	0.11	0.50	3.06
Other Real Estate Owned	8.42	1.81	1.46	0.37	0.98	3.34	16.38
Investment Securities	116.49	81.89	70.27	35.55	68.18	46.18	418.56
Total Liabilities	617.69	307.77	304.75	120.51	180.26	296.65	1827.63
Total Deposits	492.64	247.30	251.65	100.58	165.28	257.88	1515.32
Domestic Deposits	348.38	239.37	233.66	100.17	163.82	237.15	1322.54
Loan Loss Reserve	13.23	4.06	4.22	1.66	2.08	7.63	32.87
Equity Capital	46.07	24.21	26.67	11.09	15.33	27.79	151.17
Total Capital	60.11	27.21	31.53	12.33	15.70	32.76	179.65
Balance Sheet Changes ($ Billions)							
Year-to-Date Changes							
Assets	−10.23	3.36	−4.23	−5.65	−1.08	−6.30	−24.13
Loans	−3.71	1.29	−0.90	−1.83	−2.09	−4.17	−11.42
Noncurrent Loans	−1.33	0.24	−0.02	−0.10	−0.22	−0.89	−2.32
Other Real Estate Owned	−0.02	−0.14	−0.10	−0.03	−0.12	−0.36	−0.76
Investment Securities	−0.98	5.81	0.44	0.60	6.55	2.56	14.97
Total Liabilities	−11.86	2.52	−5.14	−5.90	−3.02	−7.18	30.59
Total Deposits	−9.55	−3.35	−7.41	−5.35	−0.07	−7.55	−33.29
Loan Loss Reserve	−0.11	0.06	0.14	−0.03	−0.13	0.02	−0.06
Equity Capital	1.63	0.84	0.91	0.25	1.95	0.87	6.46
Total Capital	1.27	1.20	1.15	0.50	1.18	1.38	6.68
First Quarter Changes							
Assets	−10.23	3.36	−4.23	−5.65	−1.08	−6.30	−24.13
Loans	−3.71	1.29	−0.90	−1.83	−2.09	−4.17	−11.42
Noncurrent Loans	−1.33	0.24	−0.02	−0.10	−0.22	−0.89	−2.32
Other Real Estate Owned	−0.02	−0.14	−0.10	−0.03	−0.12	−0.36	−0.76
Investment Securities	−0.98	5.81	0.44	0.60	6.55	2.56	14.97
Total Liabilities	−11.86	2.52	−5.14	−5.90	−3.02	−7.18	−30.59
Total Deposits	−9.55	−3.35	−7.41	−5.35	−0.07	−7.55	−33.29
Loan Loss Reserve	−0.11	0.06	0.14	−0.03	−0.13	0.02	−0.06
Equity Capital	1.63	0.84	0.91	0.25	1.95	0.87	6.46
Total Capital	1.27	1.20	1.15	0.50	1.18	1.38	6.68

Note: First quarter 1993 data are preliminary.
Banking Research and Statistics

Glossary

Definitions

Commercial Real Estate Loans: Loans secured by nonfarm nonresidential properties.

Construction Loans: Loans for construction and land development.

Extraordinary Income, Net: Net after-tax income from events and transactions that are "unusual and infrequent."

Failed/Assisted Banks: National banks that have been closed by, or have received financial assistance from, the Federal Deposit Insurance Corporation (FDIC).

Investment Securities: Total securities excluding those held in trading accounts.

Leverage Ratio: Ratio of estimated Tier 1 capital to estimated tangible total assets.

Loans: Total loans and leases less unearned income.

Net Loan Losses: Total loans and leases charged off (removed from balance sheet because of uncollectibility) during the period, less amounts recovered on loans and leases previously charged off.

Loan Loss Reserve: The allowance for loan and lease losses.

National Banks: Nationally chartered commercial banks in the U.S. and its territories that are insured by either the Bank Insurance Fund or the Savings Association Insurance Fund of the FDIC and filed a call report.

Noncurrent Loans: The sum of loans and leases 90 days or more past due plus nonaccrual loans.

Net Interest Margin: Net interest income as a percent of average assets.

Regions: Northeastern (NE) — Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virgin Islands; Southeastern (SE) — Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia; Central (CE) — Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin; Midwestern (MW) — Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota; Southwestern (SW) — Arkansas, Louisiana, New Mexico, Oklahoma, Texas; Western (WE) — Alaska, Arizona, California, Colorado, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming. Each bank in a multinational bank holding company is included in the region in which the bank is located.

Other Real Estate Owned (OREO): Real estate acquired by a bank for debts previously contracted (i.e., foreclosed real estate). Also includes property formerly used or intended for use for banking purposes.

Residential Real Estate: Loans secured by one- to four-family residential properties plus loans secured by multifamily (five or more) residential properties.

Risk-based Capital Ratio: Ratio of estimated total capital to estimated risk-weighted assets.

Securities Gains: Net pre-tax realized gains (losses) on securities not held in trading accounts.

Total Capital: The sum of Tier 1 and Tier 2 capital reported on call report schedule RC-R.

Computation Methodology

Current quarter income statement items were calculated by summing the difference between the year-to-date and previous quarter numbers of each item for all banks that filed a current quarter call report. For performance ratios constructed by dividing an income statement (flow) item by a balance sheet (stock) item, the income statement item for the period was annualized (multiplied by the number of periods in a year) and the average of the balance sheet item for the period (beginning-of-period amount plus end-of-period amount divided by two) was used.

Interagency Policy Statement on Credit Availability

The four federal regulators of banks and thrifts — the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision — today announced a program directed at dealing with problems of credit availability, especially for small- and medium-sized businesses.

The program will focus on the five areas in which the agencies will take action designed to alleviate the apparent reluctance by banks and thrifts to lend. Those areas are:

- Lending to small- and medium-sized businesses,
- Real estate lending and appraisals,
- Appeals of examination decisions and complaint handling,
- Examination processes and procedures, and
- Paperwork and regulatory burden.

The agencies intend to complete virtually all of the changes proposed in the program within the next few months. As the specifics of any change are finalized, that change will be made and published while details of other changes are in the process of being finalized.

A complete statement about the actions the agencies have planned is attached. The statement reaffirms the agencies' belief that it is in the interest of lenders, borrowers, and the general public that creditworthy borrowers have access to credit.

This policy statement will be distributed to all federally examined banks and thrifts and to all regulatory agency offices and examiners.

This interagency policy statement on credit availability was issued on March 10, 1993. The complete statement, which is omitted, may be obtained by contacting the OCC's Communications Division in Washington, D.C. or other federal financial regulatory agency.

Interagency Policy Statement on Documentation of Loans

The four federal regulators of banks and thrifts — the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision — today announced further details on the implementation of their March 10 program to increase credit availability. Today's policy statement outlines changes in the area of loan documentation.

The strongest banks and thrifts, those with regulatory ratings of 1 or 2 and with adequate capital, will now be able to make and carry some loans to small- and medium-sized businesses and farms with only minimal documentation. The total of such loans at an institution will be limited to an amount equal to 20 percent of its total capital. Eligible banks and thrifts will be encouraged to make these based on their own best judgment as to the creditworthiness of the loans and the necessary documentation. These loans will be evaluated solely on the basis of performance and will be exempt from examiner criticism of documentation.

Each minimal documentation loan is subject to a maximum loan size of $900,000 or 3 percent of the lending institution's total capital, whichever is less. If a borrower has multiple loans in the exempt portion of the portfolio, those loans must be aggregated before the maximum is applied. Loans to institution insiders — executive officers, directors, and principal shareholders — are ineligible for inclusion, as are loans that are already delinquent.

The package also offers some relief for banks that do not qualify for the program, and for loans that are not in the exempt portion of a bank's portfolio. The policy statement also includes guidelines which provide institutions some additional flexibility in applying their documentation policies for small- and medium-sized business and farm loans without examiner criticism.

Today's initiatives are directed at eliminating unnecessary documentation and reducing costs to lending institutions and the time it takes to respond to credit applications. The Office of Thrift Supervision will soon issue a regulation to amend its current loan documentation requirements to comply with the statement. For banks, the program requires no change in existing regulations and is effective with today's release.

The complete program is being mailed to all regulated institutions and all examiners, and additional copies are available from the agencies.

The four federal financial institution regulatory agencies issued this joint policy statement on March 30, 1993.

Recent Corporate Decisions

On January 7, 1993, the Office of the Comptroller of the Currency (OCC) conditionally approved an application filed by First National Bank of Huntsville, Huntsville, Texas, to establish an operating subsidiary to facilitate a reorganization to eliminate the bank's holding company. The restructuring plan is to merge the holding company into the operating subsidiary and subsequently dissolve the operating subsidiary. In its conditional approval, the OCC imposed the following requirements on the applicant: the holding company must divest all assets ineligible for investment by a national bank before its merger into the operating subsidiary; the holding company must incur all costs of the proposed transaction; the transaction must in no way reduce the total capital position of the bank; the holding company must provide the OCC with a list of contingent liabilities; and an offering circular to the bank's shareholders seeking approval of the transaction must be submitted to the OCC for review. (On May 1, 1991, the OCC approved a similar restructuring proposal filed by First Victoria National Bank, Victoria, Texas.)

On February 12, 1993, the OCC conditionally approved a notice filed by Wells Fargo Bank, National Association, San Francisco, California, to expand the activities of an existing operating subsidiary to include acting as the sole general partner of an additional limited partnership. The additional limited partnership would originate and hold loans to developers for the acquisition, development, and construction of residential housing. The approval was subject to the following conditions: the aggregate investment in the subsidiary must not exceed $15 million; the subsidiary must be managed in a manner to minimize the risk of "piercing the corporate veil" under relevant state law; the partnership venture must be subject to OCC examination and supervision; and the bank must maintain and make available to OCC examiners current information on the subsidiary's activities as general partner.

On February 16, 1993, the OCC conditionally approved an application filed by Bank of America, N.T. & S.A., San Francisco, California, to operate a mobile customer-bank communication terminal (CBCT) unit in California. This application marked the first OCC approval for a mobile CBCT unit in California. Bank of America plans to use the mobile CBCT to assist customers experiencing disruptions because of branch closings and consolidations occurring as a result of the bank's merger with Security Pacific National Bank. After Bank of America has completed its consolidation efforts, it plans to use the mobile CBCT at state fairs, conventions, and other events in California.

On February 17, 1993, the OCC waived the publication and public comment period for a change in bank control notice involving a 5-rated bank. The bank was critically undercapitalized and operating without senior management. However, the OCC subsequently denied the change in control notice because neither the proposed acquirer nor the proposed senior lending officer had the necessary experience to manage a troubled institution. The OCC closed the bank in late February 1993.

On March 10, 1993, the OCC conditionally approved an application filed by Union Planters National Bank, Memphis, Tennessee, to purchase the assets and assume the liabilities a bank acquired simultaneously by Union Planters' holding company from another bank holding company. The bank's acquisition of the affiliate did not include assumption of the affiliate's contingent liabilities. Although Tennessee law is silent as to whether a corporate shell must remain in legal existence to settle any future potential claims, the OCC concluded that the bank holding company's commitment to maintain the affiliate's corporate existence and capital for two years provided reasonable protection for potential creditors. Approval was conditioned on the applicant complying with this commitment.

On March 11, 1993, First Bank National Association, Minneapolis, Minnesota, was granted conditional approval to acquire a state-chartered trust company in Seattle, Washington, and operate it as an operating subsidiary. In its conditional approval, the OCC required First Bank National Association to receive approval for the acquisition of the trust company from the Washington Supervisor of Banking. The OCC also required First Bank to ensure that the subsidiary's operations are conducted in such a manner as to qualify for exemption from status as a "bank" under the Bank Holding Company Act. In addition to several other technical conditions, the OCC required the bank to receive OCC approval before any ownership changes are made involving the trust company. (The OCC ap-

This section summarizes selected corporate decisions completed during the first quarter of 1993. The cases are noteworthy because they represent issues of importance or unusual methods of accomplishing a particular expansion activity. Copies of the public sections of the applications may be obtained from the Communications Division of the OCC in Washington, D.C.

proved a similar proposal for First Bank to operate a national bank trust company in California on May 1, 1992. (see volume 11, number 3, page 17 of the *Quarterly Journal*.)

On March 18, 1993, the OCC conditionally approved Republic National Bank, Columbia, South Carolina's proposal to dividend the stock of a proposed operating subsidiary to its holding company. Before transferring the subsidiary's stock to the holding company, the bank plans to transfer substantially all of its mortgage portfolio to the subsidiary. The proposal is part of a series of transactions in which the bank will be downsized and eventually shift its focus from consumer to commercial lending. The OCC conditioned its approval on the holding company obtaining approval from the Federal Reserve Board to acquire the subsidiary and the bank providing the OCC with an exact accounting of the dividend payment and a board resolution certifying compliance with 12 CFR 7.6120, which addresses dividends payable in property other than cash.

On March 18, 1993, the OCC conditionally approved a proposal filed by Citibank, National Association, New York, New York, to establish a second tier operating subsidiary of an existing and previously approved DPC subsidiary. The new subsidiary will acquire a sole general partner interest in a real estate development partnership acquired in satisfaction of a debt previously contracted. The conditions to the approval were supervisory in nature.

On March 24, 1993, the OCC did not disapprove two change in bank control notices for Boston Harbor Trust, National Association, Boston, Massachusetts, and Atlantic Trust Company, National Association, Washington, D.C. Newco, Inc., a wholly owned subsidiary of United Asset Management Corporation (UAM), Boston, Massachusetts, filed notice to acquire the holding company of these two uninsured national trust companies. UAM owns 31 investment advisory and related subsidiaries with total assets under management in excess of $70 billion. Although two of the subsidiaries conduct underwriting activities, the gross revenues of these two subsidiaries comprise barely one percent of UAM's total revenues. As a result, the OCC concluded that the securities activities are *de minimis* and thus UAM's ownership of the trust companies would not violate the Glass-Steagall Act.

Decisions Related to the Community Reinvestment Act

On January 7, 1993, the OCC granted preliminary conditional approval to an application filed by National Commerce Bank, Houston, Texas, to change the location of a branch. The OCC granted conditional approval because the bank had demonstrated less than satisfactory performance under the Community Reinvestment Act (CRA) during a recent OCC examination of the bank. The bank's less than satisfactory performance was found in the bank's ascertainment of community credit needs, its marketing and types of credit offered and extended, the geographic distribution of its lending activities, and its community development efforts. Before the branch relocation can be consummated, the bank must achieve a satisfactory level of performance under the CRA including submitting a plan to the OCC demonstrating how substantive corrective action will be achieved.

On February 4, 1993, the OCC granted conditional approval to Santander National Bank, Bayamon, Puerto Rico, to establish a branch in San Juan County, Puerto Rico, and to relocate an existing branch. The preliminary approval was conditioned upon the bank's submission to the OCC of a comprehensive program to improve its CRA performance. The OCC also withheld final approval of the branch and relocation applications until the bank's performance under CRA returns to a satisfactory level. Although the bank's lending activities included a substantial volume of housing, business, farm loans, and government-sponsored loans throughout Puerto Rico, the OCC concluded that the absence of a comprehensive program precluded the bank from properly determining if it is meeting the credit needs of the entire community, including low- and moderate-income areas.

The section related to the CRA is provided pursuant to Banking Circular 238, dated June 15, 1989. It contains summaries to provide easier access to OCC's decisions on national bank corporate applications that have been conditionally approved or denied on grounds related to the CRA. The decision letters are published monthly in the OCC's Interpretations series and are also available to the public upon request to the Communications Division.

Troy Dixon
Corporate Activity Division

Speeches and Congressional Testimony

Page

Of the Comptroller Designate:

Statement of Comptroller Designate Eugene A. Ludwig before the Senate Committee on Banking, Housing, and Urban Affairs, on his nomination to become the Comptroller of the Currency, Washington, D.C., March 31, 1993 19

Of the Acting Comptroller of the Currency:

Remarks by Stephen R. Steinbrink, Acting Comptroller of the Currency, before the New York State Bankers Association Mid-Winter Conference, on the impact of regulatory burdens on national banks, Washington, D.C., January 28, 1993 21

Remarks by Stephen R. Steinbrink, Acting Comptroller of the Currency, before the Federal Financial Institutions Examination Council's Emerging Issues Conference, on new procedures for examining national banks for mortgage loan discrimination, Washington, D.C., March 5, 1993 23

Remarks by Stephen R. Steinbrink, Acting Comptroller of the Currency, before the Independent Bankers Association of America, on the President's program to increase lending to small farms and businesses, San Diego, California, March 12, 1993 27

Statement of Stephen R. Steinbrink, Acting Comptroller of the Currency, before the House Subcommittee on Commerce, Consumer, and Monetary Affairs, Committee on Government Operations, on regulatory burdens on financial institutions affecting lending to businesses and consumers, Washington, D.C., March 17, 1993 31

Of senior officials of the Comptroller of the Currency:

Statement of Janice A. Booker, Director, Community Development Division, before the House Banking Subcommittee on Financial Institutions Supervision, Regulation and Deposit Insurance, on national bank community development activities, Washington, D.C., February 3, 1993 35

Statement of Comptroller Designate Eugene A. Ludwig before the Senate Committee on Banking, Housing, and Urban Affairs on his nomination to become the Comptroller of the Currency, Washington, D.C., March 31, 1993

Mr. Chairman and members of the Committee, I am pleased to be here today, and I would like to thank you sir and this committee as well as the Clinton Administration for expediting this confirmation hearing. I would like to begin by introducing you to my wife Carol, my daughters Abigail and Elizabeth, my mother Louise Ludwig and brother Kenneth who are here with me today.

Mr. Chairman and members of the Committee, for the last 20 years I have dealt with a broad cross section of banking issues. I have written on these banking policy matters for scholarly journals and trade publications, lectured on them at several universities, participated in a State Department Study Group on Promissory Notes and Bills of Exchange and actively practiced law in this area.

For much of this period, I followed and wrote about the working of this Committee for a newsletter that I edited for clients and a journal on whose editorial board I served. As a result I gained a great deal of respect for this Committee and the serious way in which it deals with the important financial issues of our time. Having viewed this Committee from the outside for so long, I am particularly honored to be here before it today.

I am also honored to have been nominated by President Clinton and look forward to working with his Administration, and the fine men and women of the other bank regulatory agencies and the excellent Bentsen Treasury Department. I have known the President for more than 25 years and have the deepest respect and affection for him and for the First Lady. I appreciate the opportunity that he has given me to work in his Administration and to serve my country.

If confirmed, I also look forward to working with this Committee and all of its members — Republicans and Democrats. I do not see financial services as a partisan issue. Rather, it is an area in which we must all make sense out of a great deal of technical complexity. That complexity, if handled correctly, can open great opportunities for the nation and its people. If handled incorrectly, however, it can lead to problems that will affect us all, both in familiar ways and ways that are less apparent.

There are several areas I will focus on if confirmed. And, I would like to highlight some of these for you today.

First, I will devote a great deal of time and energy to eliminating discrimination in our financial services system. As a nation we should not tolerate, and as Comptroller, I will not tolerate, discrimination. Credit and other banking decisions simply cannot be made on the basis of where a person's parents came from, the color of his or her skin, his or her religion, or gender. I want to assure you that as Comptroller I will work to remove discrimination from our financial system, root and branch.

Second, if confirmed, I want the Office of the Comptroller to focus particular attention on the structure and function of the banking system from a long-term perspective. As we are all painfully aware, the industry has just been through a difficult period. Happily, bank profitability and capital are finally up — thanks in no small part to the work of the members of this Committee.

However, in today's fast-moving markets, driven by shrinking distances, unparalleled technological change, and changing consumer needs and tastes, we cannot take these recent positive developments in the banking industry for granted. We must look beyond the next several months or even several years to detect the next bumps in the road. Developing this vision of the future direction of the banking industry specifically, and the financial services sector in general, is, I believe, a critical role for the Comptroller's office. It is critical as a basis for a truly safe and sound banking system. Let me also say that in developing this vision of the future, I very much want to interact with the ideas and insights of the members and staff of this Committee.

Third, if confirmed, I intend to somewhat reorient the examination function. My experience tells me that most of OCC's examiners are well-trained, hard working professionals who take their jobs seriously. But, the examination process can be improved, I believe, by looking at institutions with an eye to what is likely to happen in the future instead of focusing quite as much on the past. Further, the examiner should see this as a central part of his or her function, clearly communicating to the institution's senior management what he or she has learned about the future prospects of the institution, and how the institution can avoid upcoming problems.

Fourth, if confirmed, I will focus more of the agency's effort toward identifying behaviors and products that pose serious risk to the banking industry. It is human

nature to refight past battles, and there is always the danger of overregulating in some areas while failing to identify new areas that pose risks to an institution and the system. If confirmed, I very much want to foster creative thought about legitimate risks and how those risks can best be regulated.

This brings me to my final point. Maintaining safety and soundness should not mean fostering a banking sector that does not serve the credit needs of the community. The banking industry has a critical role to fulfill in our economy, in making credit available to creditworthy borrowers. And, the economy is not well-served, and banks are not safe, if this industry does not effectively play that role.

The President's recently announced program in this area is designed to strike the difficult but critically important balance between careful regulation on the one hand and enough leeway on the other hand so that banks are allowed to meet the legitimate credit needs of the community. I believe this program strikes the right balance. And that is the balance I will work hard to maintain if I am confirmed as the next Comptroller.

Once again, I want to thank you Mr. Chairman and members of this Committee for your prompt consideration of my nomination. If I am confirmed, I very much want to, and look forward to, working with you and the other members of this Committee. I would be pleased to answer any questions.

Remarks by Stephen R. Steinbrink, Acting Comptroller of the Currency, before the New York State Bankers Association Mid-Winter Conference, on the impact of regulatory burdens on national banks, Washington, D.C., January 28, 1993

When William J. Bosies, Jr. of the New York State Bankers Association invited me to participate in this meeting, he suggested several issues in which you have an interest. All were related to the main topic of your meeting — the impact of regulatory burden.

I am sure you are all aware that I will not be the one who decides these issues. That will be the responsibility of the new Congress, the new Comptroller of the Currency, and the new Federal Deposit Insurance Corporation (FDIC) board that President William J. Clinton will name.

But, as Acting Comptroller, I may be able to offer a few insights about how bank examiners view at least three of these issues.

First, there is the issue of contradictory mandates directed toward the banking industry — and also bank regulators. Banks — and bank regulators — find themselves caught between the well-known rock and a hard place.

On the one hand, bankers — and bank regulators — are called upon to do everything possible to reduce risk in banks ... to increase bank capital ... and to avoid any action that might cause losses. Most important of all, bankers — and bank regulators — must *not* do anything that might lead to bank failure, and thereby create a loss to the federal deposit insurance fund.

On the other hand, bankers — and bank regulators — are expected to make sure that lack of credit does not get in the way of economic recovery and growth. Over the past two years, bankers — and bank regulators — have been called upon to do everything possible to end the "credit crunch."

Nowhere is the conflict between these two mandates more clear than in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). There are plenty of examples.

FDICIA says that the regulators must take steps to end the credit crunch for real estate. That includes assessing the impact of risk-based capital standards on real estate lending.

But FDICIA also requires us to write a regulation that lays out specific underwriting standards for real estate loans. And it requires us to make sure our risk-based capital standards reflect not only credit risk but also interest rate risk and the risk from loan concentrations.

As regulators, we are doing our best to carry out all these mandates in FDICIA in the most effective — and least burdensome — way we can. In December, we issued a regulation on real estate lending that includes guidelines on underwriting standards. At the same time, we have also taken many steps to make sure none of our polices are inadvertently discouraging bankers from making good real estate loans.

We are still struggling with exactly how to structure capital standards so that they take into account the other kinds of risks specified in FDICIA. We are trying to do that without unnecessarily adding to regulatory burden — or giving new life to the credit crunch that continues to be a national concern.

Let me assure you, if you feel you are caught between a rock and a hard place, you are not alone.

Bank earnings over the past year may have begun to ease the public's fear of catastrophic losses to the deposit insurance funds. But it will be a long time before that fear disappears entirely. In the meantime, regulators and bankers will continue to be caught between conflicting demands.

Not surprisingly, these conflicting demands often take the form of regulation. That leads me to my second topic: the impact of regulatory burden.

These days, regulators, the new Administration, Congress, bankers — just about everyone, for a variety of reasons — is concerned about the effect of regulatory burden on banks. No other part of the financial services industry is subject to so many and such detailed regulations.

By themselves, most regulations have praiseworthy goals. The burden stems, in part, from the *cumulative* effect of these regulations. Part of that effect is to hamstring banks' ability to compete in meeting the needs of their customers.

As a regulator, I am personally committed to making regulations more effective and reducing regulatory burden wherever possible. But, with all the discussion about this problem, I am concerned there may be some

confusion about the real impact of reducing regulatory burden.

First of all, estimates of the total cost of regulatory burden are soft. In our report to Congress — a report that was required by FDICIA — the Federal Financial Institutions Examination Council estimated that the annual cost of regulatory compliance could be as high as $17.5 billion.

But this number was based almost entirely on estimates from other sources — estimates that varied widely. Given the statutory deadline for our report, the regulators had neither the resources nor the time to verify those numbers.

Second, there is a cost attached to any change — including changes required to reduce regulatory burden. Remember Truth In Lending Act simplification. Bank customers would have to absorb some of that cost.

Finally, none of us can predict the future. I happen to believe that a reduced regulatory burden could free up some funds for other uses. But there is no way to guarantee that a lower regulatory burden would translate dollar-for-dollar into more credit for individuals and businesses.

All of us — bankers and regulators alike — must take care in how we discuss the benefits of a reduced regulatory burden. In the long run, the banking industry will suffer if the promised benefits — such as greater credit availability — do not materialize.

My third topic this morning is one of your favorites — the Community Reinvestment Act (CRA). In a report released two days ago, the Independent Bankers Association of America singled out CRA as the most costly regulation for small banks.

The Community Reinvestment Act became law more than 14 years ago. It was written for a banking industry that was mostly small, independent banks. Even the largest banks could not branch outside their own states. And there was no such thing as a credit card bank.

That is clearly not the case today. Regardless of whether Congress takes action this year, interstate banking is a fact of life.

That raises some critical questions about CRA. For example, what constitutes the local community for a large multistate holding company?

And then there are the credit card banks. These institutions did not exist in 1977. Congress never had to worry about defining the local community for a credit card bank with customers all over the country.

These are not hypothetical situations. They are very real. I can tell you from personal experience it is impossible to sort them out to the satisfaction of everyone concerned.

Certainly there are things that we as regulators can and will do to make CRA less burdensome — to focus more on the substance of compliance with CRA. But that is not enough. We need a complete reassessment of *how* to accomplish CRA goals in the banking industry as it is structured today — and as it will be structured in the future.

Many bank customers will always prefer to use independent community banks. They serve a critical need in the financial services industry.

But I believe that, ultimately, we will also have banks that operate nationwide. And we may have other specialized kinds of banks. Any law that does not take this changed banking structure into account is doomed to frustration.

As I said at the outset, the newly appointed bank regulators and the new Congress will have to wrestle with these issues. Given the conflicting demands directed at the banking industry, the public debate is certain to be long and heated. I urge you to make your voices heard in that debate.

Remarks by Stephen R. Steinbrink, Acting Comptroller of the Currency, before the Federal Financial Institutions Examination Council's Emerging Issues Conference, on new procedures for examining national banks for mortgage loan discrimination, Washington, D.C., March 5, 1993

I appreciate this opportunity to talk with examiners about a subject that clearly fits in with the theme of your conference: emerging issues.

The subject is fair lending.

Actually, fair lending is not really a new issue. I was reminded of that fact when I looked through your program and saw that one of your speakers was Jo Ann Barefoot. For those of you who don't already know this, Jo Ann worked for the Office of the Comptroller of the Currency (OCC) in the late 1970s and early 1980s. And one of her main areas of responsibility was — fair lending.

If fair lending is not a new issue, however, it has certainly taken on new importance over the past 18 months. The reason is familiar to all of us: the new aggregate data on approvals and denials for home mortgage applications, required under the Home Mortgage Disclosure Act (HMDA).

When the Federal Reserve first released this data in 1991, the numbers showed a sharp difference in the rate of approvals and denials for minorities and non-minorities at virtually all insured financial institutions. But, in the absence of further study, there was no way for us to determine whether this difference was the result of discrimination or some other credit-related factor, such as the applicants' credit history or net worth.

Today, 18 months later, few people are questioning whether lending discrimination exists. The recent investigations by the Justice Department in Atlanta and the Federal Reserve Bank in Boston have answered that question.

Regrettably, the answer is yes. Based on the results of these studies, there can be little doubt that there has been discrimination in housing-related lending.

That does not mean that all — or even most — minorities have been denied credit. In both Atlanta and Boston, twice as many minority applicants received home loans as were turned down. But, in both cities, some minority applicants *were* denied access to credit — credit that was granted to white applicants who had similar qualifications.

That is discrimination. It may not have been conscious. It may not have been intentional. But whether it was intentional or not, it is illegal.

Unfortunately, until now, the OCC's examination procedures simply have not identified this kind of discrimination.

In past fair lending examinations, we were looking for overt discrimination. To do that, our examiners looked primarily at files for minority applicants who were denied credit. We wanted to make sure that, if a loan application was turned down, it was turned down for a legitimate, credit-related reason — not because of the applicant's race or ethnic background. Our examinations were all designed to ensure that loan denials to minority applicants were based on credit-related reasons — in other words, to uncover the most flagrant abuses.

But this method of seeking to identify discrimination was not unique to the OCC, or even bank regulators in general.

When the HMDA statistics were first released, we at the OCC contacted national banks with the greatest disparity in approval and denial rates. We asked these banks to conduct a self-assessment of their home loan application files to make sure that discriminatory factors had not played a role in their lending decisions.

Virtually all the banks did what our examiners had been doing. They focused their efforts on confirming that every loan denial was based on a legitimate credit-related reason. And in virtually every case, that is just what they found.

In taking this approach, these banks were operating in good faith. I know that we were. The problem is that all this work and effort was largely misdirected. It was only one step in what must be a multi-step effort. The results of the Atlanta and Boston studies have shown us what the next step must be.

In both Atlanta and Boston, applicants with impeccable credit qualifications were approved for credit, whether they were minority or white. In Boston, such borrowers accounted for only about 20 percent of the applications.

By the same token, applicants who were clearly unqualified were all denied credit, whether they were minority or white.

That left the vast majority of applicants. These were people who met or exceeded most of the lenders' underwriting standards, but who had some problem with at least one or two loan criteria. For these applications, a loan officer had to exercise some judgment — and perhaps offer assistance to the applicant in dealing with the problem — before deciding whether to make the loan.

That is precisely what lenders in Boston did. For example, they made many loans that did not fit the criteria for sale into the secondary market. More than half the approved applications in the Boston Fed study had a ratio of housing-related debt to applicant's total income that *exceeded* 20 percent, which is the guideline for the secondary market.

More than half the approved applications exceeded the secondary market guideline for *total* debt burden to total income — 36 percent. In fact, Boston lenders sold some mortgage loans into the secondary market that had housing debt ratios of 36 percent and total debt ratios of 44 percent.

The Boston Fed, the Justice Department, and we at the OCC believe that it is at this point — where loan officers must exercise judgment or offer assistance — that discrimination enters into the loan application process.

A loan officer's discretion undoubtedly increases the availability of mortgage funds to both minorities and non-minorities. Discrimination occurs, however, if minority applicants benefit from that discretion to a lesser extent than non-minority applicants.

The results of the Boston and Atlanta investigations suggest that, when applications have the same imperfections, white applicants are more likely to be seen as creditworthy than black or Hispanic applicants.

Specifically, the Boston Fed found a clear difference between denial rates for minority and non-minority applications with identical financial and credit characteristics. In such circumstances, minorities were denied credit 17 percent of the time, compared with 11 percent for whites.

You can understand, I am sure, that these findings had major implications for the way the OCC examines banks for compliance with the fair lending laws. It was clear that our examination procedures needed a complete overhaul.

That is exactly what we have done.

This month, we will issue interim procedures on examining national banks for racial and ethnic discrimination in residential lending. We will send copies to all our examiners and to all national banks.

Rather than looking at individual loan files one by one, these procedures call for examiners to compare loan application files. They will compare files of minority applicants who were *denied* credit, with loan files for white applicants who had similar qualifications and were *approved* for credit.

These procedures have two goals. We want to determine whether the application process for residential loans produced the same result for minority and non-minority applicants with equivalent qualifications. And we want to determine whether the bank gave equivalent levels of assistance and accommodation to all potential borrowers in the application process, regardless of race or ethnic origin.

At banks with substantial minority loan denials, examiners will review selected loan files for minority denials and for non-minority approvals. The files will be selected based on judgmental factors. For example, an examiner might review all denied minority applications for a specific time period. Or, the review might include minority applications based on a particular pattern in reasons for denial.

Examiners will also review as many approved non-minority applications as are needed to learn what kinds of accommodations, exceptions, and assistance are customarily given by the bank. In a typical bank, this will mean that examiners review four to five times as many approved non-minority applications as minority denials.

This kind of comparison between groups of loan files will help examiners determine whether all applicants for residential loans received similar treatment in the loan approval process. It will also help examiners spot any signs that minority applicants suffered from different treatment.

Let me give you an example of what I mean. Let's assume that the loan files under review have been selected because all the applicants — both white and minority — met the bank's credit criteria, with one exception. All the applicants appeared to have problems in their credit histories.

In reviewing the application files, the examiner discovers that all the white applicants received follow-up

letters from the loan officer. The letters notified the applicants of the problem in their credit reports and offered them an opportunity to provide an explanation.

But only one of the minority applicants received this letter. And all the minority applications were denied because of poor credit histories.

This is the kind of pattern of disparate treatment in residential lending that we would have been unlikely to detect with our traditional examination procedures. However, if such disparate treatment exists, our new interim procedures should find it.

Let me emphasize four points about the changes in our procedures.

First, these examination procedures are designed to compare *groups* of loan files — minority denials and non-minority approvals. The minimum number of files in the sample will vary, based on the number of minority denials and the overall number of applications.

Second, the residential loan files selected for review will not be a random sample. The selection will be based on judgmental factors.

Third, if an examiner finds one or two minority denials that appear to be the equivalent of one or two white approvals, that fact by itself will not automatically trigger a finding of discrimination. But it will trigger further questioning to determine the cause of the difference.

And finally, these procedures will be used initially only in our review of housing-related lending. We have the largest amount of data for this category of loans because the HMDA requires lenders to keep comparable records on approvals and denials of loan applications by race and ethnic origin.

As I said earlier, the OCC will issue these procedures later this month. We are calling them "interim" procedures for one very important reason.

We spent much of last year conducting limited field tests of these procedures — with good results. But this is a major change in the way we examine banks for compliance with the fair lending laws. We want feedback from our examiners as they gain more experience in using these procedures. And we want comments from bankers and other members of the public who have an interest in this area.

For some time, we have suspected that discrimination accounted for at least some of the difference in home loan approval rates for minorities and non-minorities. But our examination procedures were inadequate to confirm our suspicions.

That will no longer be the case. We believe that these interim procedures give us the means to identify patterns of disparate treatment. We intend to put them to good use.

The OCC will not tolerate discrimination in the lending practices of any national bank. In those instances where we find discrimination, we will take whatever action is necessary to eliminate it.

I know that all of you here today share this commitment. We can and must do whatever is necessary to make equal credit opportunity a reality for all Americans.

Remarks by Stephen R. Steinbrink, Acting Comptroller of the Currency, before the Independent Bankers Association of America, on the President's program to increase lending to small farms and businesses, San Diego, California, March 12, 1993

I am pleased to be here today to talk about the President's new program to alleviate the credit crunch.

You may already know that some of your association leaders were present at the White House two days ago, when President William J. Clinton announced this program. I had a chance to talk with several of them after the President's speech.

At the meeting on Wednesday, President Clinton made it clear that the bank regulators still had a number of specific details to work out. I won't pretend that, in less than two days, we have completed that assignment. But I can provide a little more information about some of the actions the regulators are considering to give life to this program.

The key element in the President's program is the set of initiatives to increase the flow of credit to small farms and to small- and medium-size businesses. It's a key element because small- and medium-size businesses provide most of the new jobs in the United States.

Unfortunately, these are precisely the borrowers that are having the most trouble in obtaining start-up financing and loans to expand operations.

That is not so surprising. When the economy fell into recession, bankers — understandably — became more cautious. You tightened your lending standards, increased documentation requirements, required more collateral as a secondary source of repayment — and in some cases asked for third-party guarantees.

Examiners, too, became more conservative in their review of loans. And that encouraged bankers to become even more cautious. After all, no banker wants to make a loan that he or she believes is sure to be criticized by the bank examiners.

For many small businesses, the result of all this caution was a clear increase in the *cost* of getting a loan, and in some cases, no credit available at any cost — because it was uneconomical for the bank to make the loan.

It was a situation in which there was every incentive NOT to make loans to small businesses.

The President's program is designed to turn that situation around. First, it allows healthy, well-managed banks to create a basket of small business loans with only minimal documentation requirements

Obviously, you would not want to make such loans to every small business applicant that walks through your door. But when you know the customer — when he or she has done business with your bank for years, and you know his or her general reputation and good character — this program will give you additional comfort to make the loan.

For example, suppose you get an application for a loan from Frank's Auto Repair Shop to expand operations. Frank needs $100,000 to add an addition to his garage. Frank has been your customer for 20 years, and he's never missed a payment on any personal or business loan. His business is solid, and he can well afford to repay this loan out of his cash flow.

Nonetheless, just to be on the safe side, you might be inclined to require Frank to put up his garage as collateral on the loan. You might also ask for a check of Frank's credit history, an audited current financial statement, and a lien search.

You would automatically include a completed loan application and a signed note in the file. And because Frank is pledging his garage as collateral, he would have to pay for a certified real estate appraisal, at a cost of anywhere from $3,000 to $5,000.

Under the President's program, you have the option of making your life — and Frank's life — much simpler.

Assuming that you run a healthy, well-managed bank, you may decide to make the loan based on an abbreviated financial statement and your past knowledge of Frank's good character and history.

Frank benefits. The bank benefits. The community benefits, through increased employment.

Clearly, there is a limit to the number of borrowers who fall into this category. For that reason, the four federal regulators intend to limit the size of the basket of such loans.

The size of individual loans in this basket would also be limited. Those limits could be either a percentage of the bank's capital or a dollar amount, whichever was less

And finally, because making such loans requires considerable judgment, this part of the President's program would be limited to healthy, well-managed banks. You may be interested to know that such banks account for more than three-fourths of the commercial banks in the country. The men and women in this room represent a large portion of those banks.

There are other changes in President Clinton's program that would make it easier for all banks to make loans to small businesses. One of the most significant has to do with what happens when a small business pledges real estate as collateral for a loan — even though the source of repayment is the cash flow from the business.

Under current regulations, if the loan is more than $100,000, the borrower must get a formal real estate appraisal from a licensed or certified appraiser. This requirement may make it unprofitable for the bank to make smaller loans. It certainly makes it more expensive — and in some cases, impossible — for a small business to get the loan.

For that reason, the President's program will waive the formal appraisal requirement for some loans. It will also raise the threshold for formal appraisals for other loans to small- and medium-size business.

A second part of the President's program would bring about changes in the way all banks are examined by federal regulators.

I want to make one point very clear. All the regulators are absolutely committed to making sure their examiners are applying supervision policies uniformly — within individual agencies and among the four agencies.

No banking company should have to bear any additional regulatory burden because of inconsistencies in examination requirements. And, if that is *not* the case, we want to hear about it from you.

One area where uniformity is particularly important concerns the way examiners use the category of Other Assets Especially Mentioned, or OAEM, when they review loans. The regulators are concerned that some examiners — and bankers — may have been using this category incorrectly.

The OAEM category was intended for loans with some defect which, if not corrected, *could* cause the loan to become substandard or worse. It was never intended as a catch-all for all loans with minor problems, such as documentation exceptions.

Nor was it intended that OAEM be added to other loan classifications as a basis for analyzing a bank's condition or deciding on supervisory actions. Such a use is clearly wrong. It can lead to inflated estimates of future classified assets in the bank. It can also lead to unnecessarily conservative loan practices — practices that strangle the flow of credit to otherwise creditworthy borrowers.

For that reason, all the agencies will clarify their examination procedures to ensure that the definition of OAEM is clearly understood — and that loans are not incorrectly criticized as OAEM.

I think every banker — and every national bank examiner — recognizes that bank supervision can never be an exact science. Like banking, it requires knowledge, experience, skill — and judgment.

The fact that bank examination requires judgment, however, means that there may be room for disagreement — on the results of a particular loan review, for example.

I am proud of the work that national bank examiners perform — often under the most difficult circumstances. But, because I have been an examiner for more than 25 years, I know that even the best examiners are human beings. And like all human beings, we can make mistakes.

That is why it is so important to have an effective appeals process. That is why all of the federal agencies are taking steps to ensure that our process provides a fast, fair review of examination appeals from bankers.

One of the things we are considering is an improved general complaint procedure for the OCC. This procedures would include a senior official, reporting directly to the Comptroller. He or she would be the initial contact point for bankers — a resource who could provide advice on whether it made sense for the banker to file an appeal, for example, or who advised on the kind of information that would be needed to decide the appeal.

Above all, this official would make sure there was no retribution for anyone involved in an appeal — either the banker or the examiner. We recognize that this kind of assurance is essential to the fair resolution of every appeal.

A third set of changes would involve accounting issues.

The President's program would change accounting rules for two important areas: bank loans to borrowers who want to buy Other Real Estate Owned, and in-substance foreclosures.

Right now, accounting rules discourage banks from making loans to borrowers who want to use the funds

to buy foreclosed real estate from the bank. OCC rules also establish a minimum down-payment level for purchasing such property.

The regulators intend to work with the accounting profession to modify these rules. The OCC will also consider reducing the minimum down-payment requirement, so that creditworthy borrowers can put foreclosed property back to work.

The current rules on in-substance foreclosures have a similar dampening effect on the real estate market. The rules require foreclosure valuation treatment for some real estate loans when the collateral value drops below the loan amount. That is true even when borrowers have made all the necessary payments.

These are the new rules of the game that President Clinton outlined to the American public at the White House this past Wednesday. In the next few months, we will be able to provide you with many more details that will make this program a reality.

As you consider these changes, however, I urge you to remember two important points that the President emphasized in his speech.

First, this program does nothing to detract from the fundamental goals of the bank regulatory agencies — ensuring a safe and sound banking system. No one wants a repeat of our experience over the past five years.

Second, the President made it clear that this program is only one part of a broader effort to ensure equal credit opportunity for all Americans. That includes making financial services available to low- and moderate-income neighborhoods and to disadvantaged rural areas. And that is a goal that I personally strongly endorse.

Your association has a unique opportunity to help make these goals a reality. I urge you to work with us as we put this new program into practice.

Statement of Stephen R. Steinbrink, Acting Comptroller of the Currency, before the House Subcommittee on Commerce, Consumer, and Monetary Affairs, Committee on Government Operations, on regulatory burdens on financial institutions affecting lending to businesses and consumers, Washington, D.C., March 17, 1993

Mr. Chairman and members of the Subcommittee, your invitation asked that I appear today, accompanied by Chief National Bank Examiner Donald G. Coonley, to discuss regulatory burdens experienced by financial institutions in lending to businesses and consumers. I am pleased to respond. As the agency responsible for supervising national banks, the Office of the Comptroller of the Currency (OCC) is vitally interested in the effect of the current level of regulation on banks' ability to provide services.

Unquestionably, we need effective supervision and regulation of the banking industry. Banking institutions perform critical functions in the U.S. economy: they receive federally insured deposits, they serve as intermediaries between borrowers and savers, they are part of the payments mechanism, and they facilitate the conduct of monetary policy. Banking regulation is necessary to ensure the attainment of social objectives, which include maintaining the safety and soundness of the banking system, serving the credit needs of the American public, and protecting the interests of banking customers.

While bank regulation delivers valuable benefits, those benefits are not free. Bankers argue that the current level of regulation has raised costs to unacceptable levels and severely constrained the scope and quality of the services they provide. Although the exact dimensions of regulatory burden, measured either in dollar cost or in terms of lost lending opportunities, are difficult to quantify, there is no question that the pace of regulatory change has accelerated in recent years. Passage of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required federal banking agencies to issue many new regulations that banks must assimilate. While new regulations mandated by statute may not seem overly burdensome when taken individually, the resulting cumulative burden of regulation may very well impair the ability of banks to meet the needs of their customers.

Some argue that excessive regulation may also reduce credit availability, by requiring banks to use funds that could otherwise support loans to pay for compliance costs, and by creating an environment in which bankers are cautious about making new loans. Bankers have clearly conveyed to us their belief that current regulations have discouraged them from making some loans to creditworthy customers.

Problems with the availability of credit over the last few years have been especially significant for small- and medium-sized businesses and farms. The interruption of credit flows, especially to those businesses, has serious economic effects. Small- and medium-sized businesses play a critical role in the growth of the economy, contributing in large share to growth in jobs and productivity. Large, publicly traded corporations can turn to alternate sources of financing, such as the market for commercial paper. Small businesses rely much more heavily on bank loans to obtain operating capital and financing for expansion. Bank loans play an important role in financing small business start-ups, which play a key role in the revitalization of economically distressed communities. Even profitable small businesses with excellent credit histories, or start-up companies with excellent prospects, may find it difficult to succeed when they are denied access to credit because of the economic and regulatory climate.

The remainder of my testimony will discuss these issues in greater detail. First, I will discuss President William J. Clinton's new program to address the problems of credit availability, especially as they affect small- and medium-sized businesses. I will then describe other efforts the OCC is making to alleviate the burden of regulation on the banking industry without compromising safety and soundness.

Joint Regulatory Actions to Implement the President's Program

On March 10, President Clinton announced a program of regulatory and administrative changes directed at improving the flow of credit, particularly to small- and medium-sized business. The OCC, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision jointly issued a policy statement that describes the steps we will take to implement the program. The

agencies expect to complete virtually all of the proposed changes within the next few months.

The President's program includes initiatives in five areas: lending to small- and medium sized-businesses, real estate lending and appraisals, appeals of examination decisions and complaint handling, examination processes and procedures, and paperwork and regulatory burden.

Lending to Small- and Medium-Sized Businesses

The first element of the program reduces documentation requirements for strong and well-managed banks lending to small businesses.* The agencies will issue new guidelines that make it clear that banks may take into account a borrower's reputation and character, as well as his financial condition and the value of collateral, in making credit decisions. The agencies will also clarify the examination and rating procedures relating to the Other Assets Especially Mentioned category of loans so that such loans are not improperly grouped with classified loans.

Appraisals and Real Estate Lending

Because small businesses often have few tangible assets, their owners often secure their loans with mortgages on their places of business or their homes, even though the source of repayment is the cash flow from the business. Under current regulations, if the loan is for an amount greater than $100,000, the borrower must get a formal real estate appraisal from a licensed or certified appraiser. This requirement may make it unprofitable for banks to make those small business loans. Accordingly, the agencies will alter appraisal requirements for real estate securing small business loans. The agencies will also make changes in accounting rules to facilitate financing to borrowers who wish to purchase foreclosed real estate, and other changes to ensure that real estate collateral is not undervalued in loan transactions.

Appeals and Complaints

Under the new program, each agency will take steps to ensure that its appeals process is fair and effective. In particular, each agency will ensure that its appeals process provides a fair and speedy review of examination complaints, and that there is no retribution against either the bank or the examiner as the result of an appeal. At the same time, we are reviewing our complaint processes, which we use to handle more general complaints from the public and from banks, to improve the care with which complaints are scrutinized and the timeliness of responses.

Examination Process and Procedures

The new program aims to minimize costs that the examination process imposes on regulated institutions. In particular, the agencies will: (i) eliminate duplication in examinations by multiple agencies, unless clearly required by law, (ii) increase coordination of examinations among agencies when duplication is required, and (iii) establish procedures to centralize and streamline examination in multibank organizations.

Continuing Efforts to Reduce Burden

The agencies will work to develop common standards for determining when delinquent loans that have been partially charged off may be returned to accrual status. The agencies will continue to review all paperwork requirements to eliminate duplication and other excesses that do not contribute to safety and soundness, and review all regulations and interpretations to minimize burden while maintaining safety and soundness.

In addition to the program just described, the OCC seeks to minimize regulatory burden on national banks in ways that do not reduce the safety and soundness of the banking system when implementing regulations. We are making every effort to take burden into account as we implement the regulatory requirements imposed by FDICIA. We are also involved in a number of efforts — which I will describe below — to reduce the burden of regulations and practices for which no legislative change is needed. There have also been calls for modification of regulations that would require statutory changes. Any such proposal requires careful evaluation to ensure that neither safety and soundness nor other important goals, such as fair lending, would be compromised.

OCC Review of Regulations

In the spring of 1992, the OCC conducted an extensive review of its regulations. One objective of that review was to identify regulations that impose unnecessary burdens on national banks or the public.

To assist us in our review, we published a notice in the *Federal Register* soliciting ideas, issued a press release requesting specific suggestions from the public, and solicited the views of OCC bank examiners and the chief executive officers of every national bank. We also contacted state bankers' as-

*The interagency policy statement on lending to small- and medium-sized businesses may be found on page 13 of this issue of the Quarterly Journal.

sociations and national trade groups to obtain their comments.

The OCC received 200 responses, which were frank and highly critical of the burdens imposed by bank regulation. More than half of the comments argued that regulation related to the Community Reinvestment Act (CRA) is too burdensome; many commenters thought that small banks lending primarily to their own communities should be exempt from its requirements. More than a third of the comments claimed that real estate appraisal requirements are too costly, and nearly a quarter of the comments maintained that the regulation implementing the Truth-in-Lending Act is overly complex, burdensome, and complicated to understand, and that consumers do not value the information the disclosures provide.

Drawing in part from those comments, we identified several existing regulations that we could revise without statutory changes and several burden-reducing initiatives already in the drafting stage that we could accelerate. In 1992, the OCC issued three final rules that will reduce regulatory burden without threatening safety and soundness. Those rules would allow some home buyers to obtain appraisals from less expensive sources, increase the uniformity of capital rules among the federal banking agencies by clarifying some technical issues in the implementation of the risk-based capital guidelines, and make the reporting and filing requirements for national banks under the Securities Exchange Act of 1934 conform with those of the Securities and Exchange Commission (SEC).

We have also published in the *Federal Register* for comment a number of other burden-reducing proposals. Among other things, those proposals would eliminate unnecessary record-keeping requirements for banks holding certain securities, eliminate duplicative requirements in the area of collective investment funds, and bring disclosure requirements for offers and sales of national bank securities into conformity with SEC rules implementing the Securities Act of 1933.

FDICIA Section 221 Study on Regulatory Burden

Section 221 of FDICIA required the Federal Financial Institutions Examination Council (FFIEC) to review all banking regulations and identify ways to reduce unnecessary burdens without undermining compliance or enforcement of consumer laws or adversely affecting the safety and soundness of the banking system. To meet the requirements of the act, the four federal banking agencies that constitute the FFIEC, along with the Department of the Treasury, undertook extensive reviews of their policies, procedures, record-keeping and documentation requirements. The FFIEC solicited and received numerous public comments both in response to a *Federal Register* request notice and in conjunction with hearings held in three U.S. cities. During the course of the study, the FFIEC considered 1,148 letters and heard the testimony of 79 witnesses. The final report was submitted to Congress on December 17, 1992.

In the report, the FFIEC recommended over 60 specific initiatives to relieve individual burden requirements that the agencies agreed to consider. Of the 60 proposals, 41 are administrative changes that the OCC will consider implementing either alone or together with the other agencies. Some of the more important changes are described below. Many of the proposed changes are technical, and the resulting reduction in any one regulation is not likely to be large. Nonetheless, the cumulative effect of the changes represents an important step.

Minimizing Changes to Reporting Requirements

Working through the FFIEC, the agencies have adopted a policy that limits the frequency of most call report changes to once a year and provides a minimum of 60 days lead time between the announcement of a change and its effective date. We plan to expand this policy to cover changes to other reports as well.

Coordinating Supervisory Policies

The OCC is contributing to an interagency effort to develop consistent guidance to banks regarding the adequacy of the allowance for loan and lease losses. Examiners will use the guidance in assessing whether an institution's policies and practices are resulting in adequate reserves. The agencies are also reviewing their appraisal rules to determine whether the burden imposed by those rules might be safely reduced.

Improving Consumer Protection Regulations

The OCC is participating in three efforts identified in the Section 221 report to make consumer protection regulations more effective and less burdensome. First, we are participating in a subcommittee of the FFIEC's Task Force on Consumer Compliance that is exploring ways to carry out the CRA more efficiently and effectively. The agencies believe that focusing evaluations more on lending performance than on documentation and record-keeping should both reduce paperwork burden and increase lending in low- and moderate-income areas.

Second, the agencies have recently completed a joint training session for compliance examination, which focused on examining for CRA compliance. Programs of this type help ensure uniformity and consistency in CRA enforcement. Third, the OCC is working on amendments to its Fair Housing Home Loan Data Systems (FHHLDS) regulation to relieve duplicative record-keeping burdens on national banks that are subject to both the Home Mortgage Disclosure Act and the current monthly record-keeping requirement of the FHHLDS.

The data collected under the HMDA and FHHLDS regulations are key elements to the OCC's new interim examination procedures for reviewing housing-related credits which we will soon issue. There is some data suggesting that violations of equal credit and fair lending laws most commonly do not involve rejection of clearly well-qualified applicants, but rather disparate treatment of applicants with average qualifications. This may occur at any point in the lending process. The focus of the revised examination procedures is a comparative review of loan application files to determine whether the application process ended similarly for minority and non-minority applicants with equivalent qualifications, and whether the bank gave them equivalent levels of assistance and accommodation during the course of the loan application process.

Finally, many of the comments that we received in conjunction with the Section 221 report were suggestions for statutory revisions to reduce burden that were not included among the recommendations listed in the report. The agencies felt, however, that to the extent those suggestions represented changes that could carry out the intent of certain statutes more efficiently, they merited further consideration. Hence, as stated in the transmittal letter to the report, the agencies are working together to outline proposals for legislative changes to reduce burden.

Conclusion

Regulatory burden has grown substantially in recent years, partly in response to the increased scope and objectives of banking regulation. Unnecessarily burdensome regulation imposes a high price, and the OCC is committed to identifying and eliminating unnecessary regulatory burden on national banks. We believe the President's program is an important step in this process. We will continue to make every effort to minimize regulatory burden, within the constraints of statutory requirements, safety and soundness, and consumer protection goals.

Statement of Janice A. Booker, Director, Community Development Division, before the House Banking Subcommittee on Financial Institutions Supervision, Regulation and Deposit Insurance, on national bank community development activities, Washington, D.C., February 3, 1993

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to be here today to discuss national bank community development activities carried out through existing structures and their role in the revitalization of communities throughout our country. As the federal regulatory agency responsible for supervising approximately 3,600 national banks, the Office of the Comptroller of the Currency (OCC) is vitally interested in encouraging, supporting, and providing assistance to national banks in their efforts to help provide financing for affordable housing and small and minority business development. National banks help support community development through their regular in-bank commercial and real estate lending products, through purchasing standard investment securities, through in-bank lending programs developed to achieve community development purposes, and through participation in other specialized activities and organizations.

My testimony today will review three types of community development structures which national banks use to pursue community revitalization and development goals: (l) in-bank lending programs; (2) cooperative lending programs known as loan consortia; and (3) bank investments in community development corporations and community development projects. I will particularly focus on bank investments in community development corporations and community development projects and discuss how the OCC's Community Development Corporation and Investment (CDC&I) program helps national banks revitalize their communities.

Community Development Structures

Financial institutions use a wide range of community development structures to carry out activities that promote community development. Since lending is the primary function of national banks, the OCC encourages national banks to use the full extent of their lending products to provide financing for affordable housing, including housing for low- and moderate-income people, and for small and minority businesses, particularly in distressed and low- and moderate-income areas. We encourage banks to make commercial and real estate loans in these markets as they would in any other. We also encourage national banks to offer special in-bank loan products that are aimed at serving these markets and promoting community development. Many banks do so by participating in government-guaranteed loan programs, using innovative secondary market programs, or by developing special credit products and assistance for small and minority business owners or individuals who are inexperienced in applying for credit.

Late last year, the OCC surveyed national banks to arrive at a clearer understanding of the extent of community development activities. We received responses from 54 percent of all national banks. The responding banks reported their active participation in community development lending and in the projects and programs that support this type of lending. The OCC will soon publish a final report based on the results of this survey.

The survey indicated that the responding national banks employ a variety of structures for their in-bank community development lending, such as using committees, a single staff coordinator, a branch manager or operating unit, or a specialized community development unit or department. All of these in-bank structures can be used to effectively manage national banks' community lending efforts.

The survey also indicated that after in-bank structures, external private lending consortia are the community development lending structure most often used by the responding national banks. Through such consortia, several financial institutions pool their resources to make loans that need specialized community development expertise. Such loans also may require more management attention than normally provided for loans of comparable size. Consortia allow the participating financial institutions to efficiently provide flexible financing for housing or economic development projects to support small business growth.

The last category of community development structures that I will address consists of bank community development corporations (CDCs) and community development (CD) projects. According to our survey results, they are the third most frequently used community development structure.

OCC's Community Development Corporation and Investment Program

A bank CDC can be either a for-profit or a nonprofit corporation established by one or more financial institu

tions or by financial institutions and other corporate and individual investors, or members. CDCs are established to promote housing development, economic growth and revitalization, small and minority business development or other community development initiatives. National banks may invest in subsidiary CDCs, multibank or multi-investor CDCs, or CDCs sponsored and supported by state and local governments or nonprofit groups.

A CD project is a specific project or program in a particular location with its primary purpose being the economic improvement of that area or the creation of housing for low- and moderate-income people in that area. National banks may make CD project investments without establishing a separate corporation. They can do so by investing equity in a real estate limited partnership (such as those used to provide low-income housing) or by making investments in community-sponsored development organizations controlled by businesses, residents, or governments.

Because of legal restrictions that otherwise apply, both CDCs and CD projects provide national banks the flexibility to address community development financing needs that could not be met by the bank. For example, investments, through CDCs and CD projects under the OCC's CDC&I program, are the only way national banks can purchase the stock of a community development organization, provide equity to low-income housing projects, make second-position loans to small businesses that clearly do not meet bank lending criteria, or invest in less than investment grade securities.

Because a large number of banks use CDCs and CD projects for community development financing that cannot be handled through the bank, I will confine the balance of my remarks to national bank authority for these investments, to the OCC's policies and activities promoting CDC and CD project investments, and to the ways in which they have been used to stimulate the revitalization of distressed and low-and moderate-income communities in urban and rural areas.

Community Development Corporation and Project Authority of National Banks

Current Authority and Policies

The OCC's Community Development Corporation and Investment program began in June 1963 with an OCC interpretation of 12 U.S.C. 24 (Eighth) in Interpretive Ruling 7.7480. In 1971, the ruling was revised to its present form. Interpretive Ruling 7.7480 permits national banks to make equity or debt investments in CDCs and CD projects provided they meet the stated investment limitations, are accounted for on the bank's balance sheet as "other assets", predominantly serve a community, civic, or public purpose; and are not purely private or entrepreneurial. The ruling also indicates that, while these investments are not normally permitted for national banks, they may have future value. Therefore, they may be carried on the bank's books under "other assets."

The current individual project investment limit in the ruling requires that a national bank's investment in any one CDC or CD project shall not exceed 2 percent of its unimpaired capital and surplus. The ruling also limits a bank's aggregate investments to 5 percent of its unimpaired capital and surplus.

The OCC's Banking Circular 185 (Revised) provides policies and procedures for national bank investments in CDCs and community development projects. There are three key policy criteria for such investments: public purpose, community involvement, and the provision of adequate resources.

The first criterion is *public purpose*. CDC and CD project investments must predominantly serve the public welfare and cannot be purely private or entrepreneurial. Public purpose activities address demonstrated community needs, including the needs of low- and moderate-income areas or governmentally designated redevelopment areas, *and* they must directly benefit low- and moderate-income persons and/or small- and minority-owned businesses.

The second criterion is *community involvement*. In the management and activities of a CDC or CD project, community involvement is a major factor in ensuring that the CDC or CD project investment meets the public welfare requirements of the program on an ongoing basis. For example:

- National bank CDCs are expected to seek community representation on their boards of directors from the housing, small business, and governmental sectors that may be directly affected by the investment.

- Real estate limited partnership investments must demonstrate that the general partners have strong community ties and that there is local and state government support for the project.

The third criterion is *commitment of resources*. Banks are expected to devote adequate resources to finance and manage the proposed CDC or CD project. This is to ensure that the bank sees the CDC's programs or CD project through to its conclusion.

Activities and Structures

The OCC reviews and, where appropriate, approves the activities and the structures of national banks' CDCs and CD project investments in order to ensure that they serve a public purpose.

The OCC has approved CDCs to acquire, hold, redevelop, and/or manage residential or commercial real estate projects in deteriorated business districts or residential areas that governmental and community leaders have targeted for revitalization. CDCs also have been approved to make equity investments or debt investments with equity features in qualifying small and minority business companies to finance needs not met by private sector and public sector programs. In addition, national banks have used CDCs to make equity investments in low-income housing projects and programs. National banks have also used the CDC program to undertake active industrial development programs focused on small companies. Finally, CDCs have been approved by the OCC to provide education, technical assistance, research, and planning for small- and minority-owned businesses and for nonprofit development groups.

A variety of structures are permitted for CDC and CD project investments. National banks may invest in a CDC that is jointly operated with the public or nonprofit sector. The other stockholder may be a public organization, or the CDC may receive guarantees, matching funds, or subsidies from the public sector. National banks may invest in a multi-investor CDC that involves financial institutions and other corporate and individual investors. They also may organize and invest in a wholly owned national bank CDC subsidiary. Such a subsidiary may engage in a broad range of activities including all of the ones just described.

National banks have invested directly, as limited partners, in real estate limited partnerships formed to carry out public purposes such as the development of low-income housing projects that qualify for low-income housing tax credits. Bank investments in limited partnerships are structured so that the bank's liability is limited to its capital investment in the partnership.

The CDC&I program also enables banks to create new organizations, or support an existing one, to stimulate and leverage local community development efforts. Even when a bank makes one or more CDC or CD project investment, the OCC feels strongly that such investments do not absolve the bank of its Community Reinvestment Act (CRA) responsibility to effectively develop and market regular credit and community development loan and investment products for its local community.

Community Development Corporation and Investment (CDC&I) Program Review Procedures

The responsibility for agency review and approval of bank CDC and CD project investment proposals is centralized in Washington, D.C. in the Community Development Division. The division currently reviews and approves or disapproves each investment proposal.

The Community Development Division staff reviews a bank's investment proposal to determine its conformance with OCC rules and policies. It also coordinates the review of a bank proposal with other OCC units to obtain a legal review and advice on whether the proposed investment will adversely affect the financial condition of the proposing bank. For example, the examiner in charge of the bank is consulted regarding the bank's proposed investment.

Occasionally, the OCC may disapprove a bank's investment proposal. Disapprovals occur generally when the bank is unable to demonstrate how the proposed investment serves a predominately community, civic, or public purpose, or when the proposed investment structure would not protect the bank from liability in excess of the proposed capital investment.

The Community Development Division provides technical assistance to national banks to help bankers develop complete investment proposals. In addition, staff takes steps to ensure that the investment proposals are generally approved within 30 days of the OCC's receipt of complete proposals that conform to OCC policies.

Upon completion of its review of a bank's proposal, the OCC sends an opinion letter to the bank. The opinion letter provides the OCC's decision on whether the proposed investment is permissible. The letter also describes the legal, policy, and other conditions that apply to the bank's approved investment.

After a bank investment proposal is approved, the Community Development Division monitors the investment and provides guidance and information to CDC leaders. National bank CDC and CD project investments are subject to safety and soundness examinations because they are carried on the bank's books under "other assets." They are also taken into consideration during CRA examinations, along with other bank lending, marketing, and community development activities.

New Statutory Authority

The Depository Institutions Disaster Relief Act, which became law on October 23, 1992, clarified the authority

for national banks to make investments in CDCs and CD projects primarily designed to promote the public welfare. The statute permits, under certain conditions, larger investments than were previously allowed, as long as the total community development investments do not exceed 10 percent of the bank's unimpaired capital and surplus. The OCC is required to set individual project investment limits and to assure that national banks' community development investments do not pose a significant risk to the deposit insurance fund if a bank's aggregate investments exceed 5 percent of its unimpaired capital and surplus.

The OCC has developed a notice of proposed rulemaking to establish 12 CFR Part 24 for Community Development Corporation and Project Investments. The proposed rule would implement the statute's higher aggregate investment limits, establish flexible individual project limits, and promote a streamlined approval process. It is currently in the clearance process for publication in the *Federal Register* to solicit public comment prior to its implementation.

Program History

Since 1963, the OCC has approved almost 300 CDC and CD project investments funded by an estimated 700 national banks. Many of the investments were one-time projects, which were completed, or were single-purpose CDCs whose missions were accomplished. Nearly all of the investments are carried on the banks' balance sheets as other assets; the remaining ones have been written off as charitable contributions.

In 1991, the OCC gave approval to 82 national banks to make community development investments in 14 new CDCs and 35 CD projects. These approvals represented an initial investment of $56,300,000 by the participating national banks and stimulated other bank and public sector financing. In 1992, the OCC gave approval to 92 national banks to make community development investments in 18 new CDCs and 35 CD projects. These represented an initial national bank investment of $70,600,000.

The OCC has made a concerted effort to inform national banks about the availability of the CDC&I program. In early 1992, the Community Development Division produced a video about national bank investments in CDCs and CD projects entitled "Community Development Corporation and Investment Program. National Banks Investing in the Future." The video was produced to demonstrate how four national banks, of various sizes, from urban and rural America are using the CDC&I program to expand their community development activities. We wanted to encourage other banks to consider the ideas presented in the video as they began to think about expanding or initiating a local community development project. Almost 1,600 copies have been distributed to bankers and others interested in the CDC&I program, and we continue to receive requests.

Emerging Trends

As the volume of bank investment proposals has increased, a number of trends have emerged. First, in recent years, many more banks have begun using the CDC&I program. From 1963 through 1977, the OCC approved 23 investment proposals from national banks. We are now approving just under 100 investments every year. Since 1989, annual OCC approvals of bank investment proposals have increased by approximately 300 percent. More banks are also using the program to invest in two or more CDC or CD projects.

Second, in recent years, national banks have used the CDC&I program as a vehicle for increasing the supply of affordable housing by making direct investments in real estate limited partnerships. This is one of the major ways in which national bank investments help to support the provision of multi-family housing for low-income people. Approximately half of the bank investment proposals involving housing activities are requests for OCC approval of limited partnership investments. Those projects have also used federal low-income housing tax credits and are sponsored by nonprofit or for-profit general partners in conjunction with city and state support.

Third, national banks have used the CDC&I program to form multi-investor CDCs, which operate in a multi-county region or statewide, rather than solely in one city or neighborhood. These CDCs generally involve equity investments from national banks, other financial institutions, and private corporations, including public utilities. Public sector entities may also provide matching funds to these CDCs. The diversity in the shareholder structure is reflected in the composition of the CDC's board of directors.

Fourth, banks investing in CDCs that provide financing for small businesses have developed new ways to address the needs of small- and minority-owned businesses which do not meet minimum bank or SBA criteria. Over the years, banks have structured a wide variety of CDC activities to meet such needs, including small business technical assistance and loan packaging, equity, and near-equity subordinated loans with longer terms and deferred interest.

Fifth, in the past, investment proposals were submitted primarily by large, urban banks. Since the OCC's

promotional efforts during the early 1990s, the OCC has approved as many investments by small and rural banks as by large, urban banks.

Finally, many national banks are working with other local partners (both private and public) to further leverage their partners' limited resources and to have a more comprehensive impact in neighborhoods and/or the small business sector. We believe these cooperative efforts are a key ingredient to the success of these bank CDCs and CD projects.

Because community development lending through these structures is focused on a continuous and long-term commitment to affordable housing and small- and minority-owned business development in urban and rural areas, success must also be measured over a longer time period. Attached are two examples that will illustrate this point. The first is a national bank CDC subsidiary focusing on housing, and the second is a multi-bank CDC that provides small business financing.

Conclusion

In conclusion, Mr. Chairman, we believe that there is a great need for community development lending in our distressed urban and rural areas and a great need to help provide new jobs through the support of small- and minority-owned business sectors. The OCC has actively encouraged, and continues to encourage, national banks to take a major role in the revitalization of their communities through the provision of community development lending using a variety of community development structures. All of the current existing community development structures can be used to help address these needs while complementing any new community development vehicles that may be developed.

More than half of all national banks responded to our survey and reported that they currently provide some type of community development lending through in-bank programs to support affordable housing and small- and minority-owned business lending. Also, more than 700 national banks have made almost 300 CDC and CD project investments approved by the OCC. We intend to continue working with these banks, and with all national banks, to help them continue and expand these efforts.

Attachment

Two Examples of National Bank Investments Under the OCC's Community Development Corporation and Investment CDC&I Program

The first example involves a wholly owned, for-profit bank subsidiary called the Firstar Community Investment Corporation (formerly First Wisconsin Community Investment Corporation).

In 1982, the OCC approved Firstar Bank Milwaukee N.A. (formerly First Wisconsin National Bank of Milwaukee, Wisconsin) to form and initially capitalize the CDC with $200,000 in equity. An additional $500,000 in capital was invested in 1986.

The purpose of the CDC subsidiary is to expand the bank's central city development activities and to identify, structure, and administer programs to provide low- and moderate-income housing or commercial and economic revitalization. The CDC subsidiary participates both as a general and limited partner in real estate development projects. It also provides equity and subordinated loans for the expansion of small- and minority-owned businesses.

Through the CDC's efforts, 236 units of housing for low- and moderate-income residents have been produced in the central city of Milwaukee. Two small- and minority-owned businesses have been assisted and a neighborhood commercial center was renovated. The CDC has invested approximately $3.4 million in real estate projects and small businesses that have attracted other direct private sector investments of $11.2 million into the targeted areas of Milwaukee.

The second example involves national banks' equity investments in a statewide, multi-bank, for-profit community development corporation called the Indiana Community Business Credit Corporation (CDC). Since OCC approval in 1985, more than 44 banks have made investments in the CDC, of which 25 are national banks. The national bank investors have made an $831,000 equity investment in the CDC and provided it with approximately $6 million in lines of credit. The 22 state banks have made a $230,000 equity investment in the CDC and have provided approximately $2.3 million in lines of credit. Other economic development related entities have provided $630,000 in the form of notes. In total, the pool of capital is approximately $11 million.

The purpose of this CDC is to stimulate and assist in the expansion of small and minority business activity primarily through loans and other extensions of credit to promote business development and maintain the economic stability of Indiana. The CDC's statewide

lending programs provide "gap" financing generally subordinated to a bank loan. Money is provided in conjunction with Indiana financial institutions and state and local economic development programs. The CDC addresses the needs of small businesses that cannot otherwise qualify for bank loans to finance the growth, expansion, or development of new products. The CDC has been very profitable for the past several years.

Since its inception, the CDC has made loans to 27 companies for over $9.6 million. Thirteen loans are outstanding with a remaining balance of $4 million. The CDC funds have leveraged an additional $35 million in other private and public investments. This has provided $44.6 million in total funds for small businesses in Indiana.

Interpretations — January 1 to March 31, 1993

Page

Interpretive Letters 43

Letter No.

Laws
- 12 U.S.C. 24 (7) 611, 615, 617
- 12 U.S.C. 29 E (2) 613
- 12 U.S.C. 484 D 616

Regulations
- 12 CFR 4.18 (c) 612
- 12 CFR 4.19 612
- 12 CFR 22 618

Subject
- Whether use of a "Smart Phone" program to allow customers to perform banking and financial transaction services is an activity incidental to banking 611
- The OCC's position on disclosure of examination-related material in litigation proceedings 612
- Whether divestiture rules for other real estate owned (OREO) also apply to leases on real estate formerly used by a bank in its banking business 613
- Whether state laws imposing requirements on lenders apply to national banks 614, 616
- Lending limit and other supervisory issues related to a bank's floor planning arrangement with an automobile manufacturer 615
- Whether a national bank may purchase for its own account limited partnership units in a licensed small business investment company 617
- Whether non-recourse loans sold to a national bank by home improvement dealers are subject to flood insurance requirements 618
- Issues related to conflicts of interest and customer confusion in a bank-related mutual fund 619

Trust Interpretations 55

Regulations
- 12 CFR 9.9 275

Subject
- Self-dealing issues involving trust department participation in municipal underwriting syndicates 274
- Audit procedures for national bank trust departments 275

Interpretative Letters*

611—November 23, 1992

This is in response to your November 18, 1992, letter concerning the plans of your client, *** *** (bank) to utilize a "Smart Phone" developed by American Telephone and Telegraph (AT&T) to conduct banking transactions with its customers. In addition, the bank will offer its services to correspondent financial institutions which want to use the Smart Phone to interact with their customers. For the reasons given below, in my opinion the proposal as presented is incidental to banking within the meaning of 12 U.S.C. 24 (Seventh) and therefore permissible for the bank.

AT&T's Smart Phone can be used as a normal telephone to place voice calls over the public telephone network. Unlike a normal telephone, however, the Smart Phone has a visual, touch sensitive screen and internal circuitry enabling the user to place data calls to a supporting network of computers and software (the platform). The Smart Phone user is then able to access services and information linked to the platform and to perform transactions in connection with such information and services.

The bank wants to make its banking services available through the Smart Phone. It will purchase the platform from AT&T, and the platform will provide access, presentation, and gateway functions to receive, process, and send data between the customer and the host computer of the bank during the course of a data call. The customer may select from a variety of bank services, including balance inquiries, account transfers, transaction information, bill paying, financial planning, investments and stock market information and transactions, electronic checkbook, and electronic tax filing.

This activity is consistent with the Office of the Comptroller of the Currency's (OCC) data processing ruling, 12 CFR 7.3500, which states:

> It is the opinion of the Comptroller that, in general, data processing is a technology rather than a service distinct or different from the underlying services or functions to which the technology is applied. A national bank may use data processing equipment and technology to perform for itself and others all services expressly or incidentally authorized under the statutes applicable to national banks.

The Smart Phone involves a convenient way of communicating with bank customers and performing banking transactions for them. Several OCC precedent letters are relevant. For example, Interpretive Letter No. 346, (July 31, 1985), *reprinted in* [1985-1987 Transfer Binder] Fed. Banking L. Rep. (CCH) para. 85,516, approved a program whereby a national bank subsidiary through computerized means provided information to program subscribers regarding commodities and commodities markets. In addition, the subsidiary provided these subscribers with the capability to purchase and sell commodities and enabled them to obtain on-line access to the national bank (or any other bank) to settle the commodities transactions. Interpretive Letter No. 516 (July 12, 1990), *reprinted in* [1990-1991 Transfer Binder] Fed. Banking L. Rep. (CCH) para. 83,220 permitted as data processing a similar arrangement in which a national bank subsidiary provided to subscribers "information concerning financial instruments, domestic and international financial markets, economic information and news," and the capability to purchase and sell securities.

In order to increase the customer base for and the usage of the program (*e.g.*, bill paying, point of sale, or credit card transactions), the bank will also find other reputable and qualified providers of services and information to link to the platform so that the bank's customers can obtain access to these other providers as part of the total package of home banking services. The projected volume of such activities is relatively small (less than 20 percent of the banking and financial services). This would be encompassed within the authority of a national bank to act as finder in bringing together a buyer and seller, *see* 12 CFR 7.7200, and to market goods or services to its customers on a promotional basis, *see, e.g.*, Interpretive Letter No. 339 (May 16, 1985), *reprinted in* [1985-1987 Transfer Binder] Fed. Banking L. Rep. (CCH) para. 85,509 (although a national bank cannot be a travel agent it can market tour packages of others to its customers).

The bank also plans to permit other financial institutions to participate in the program. These institutions would use the bank's platform to communicate with their own customers and to perform banking and financial transactions. This falls within the OCC precedents permitting national banks to provide correspondent services to other financial institutions, *e.g.*, Interpretive Letter No. 137 (Dec. 27, 1979), *reprinted in* [1981-1982 Transfer Binder] Fed. Banking L. Rep. (CCH) para. 85,218. It also falls within the scope of the data processing

*Interpretive letters reflect the views of the Comptroller's legal staff. Trust interpretations reflect the views of the Compliance Management Department.

precedent letters cited above. For example, in the facts addressed by Interpretive Letter No. 346, *supra*, subscribers could communicate with their own banks through the intermediation of the national bank subsidiary operating the program:

> The second activity of GEMCO [*i.e.*, a partnership which included the national bank's subsidiary] is to provide an electronic gateway for financial settlement services. This is a communication linkage allowing GEMCO subscribers to pass-through from the GEMCO system into the banking system via the bank's other links to banks. This will permit subscribers' communication with their banks in order to arrange for financial services in connection with their commodities transactions . . . . The gateway service is merely a means of connecting subscribers with their banks. This is an electronic method of facilitating the delivery, for the bank itself or for its correspondent providers, of traditional banking services.

The OCC approved a similar gateway arrangement among third parties as a correspondent banking service in Interpretive letter No. 516, *supra*.

In sum, the bank may use the Smart Phone program to enable customers to communicate and perform banking and financial transactions with the bank itself and with correspondent financial institutions which choose to participate in the program. It may also act as a finder in bringing together the customers and merchants who subscribe to the program.

William B. Glidden
Assistant Director
Bank Operations and Assets Division

* * *

612—January 5, 1993

Honorable Donald Bernardi, Judge
McLean County Courthouse
Law & Justice Center
104 W. Front Street
P. O. Box 2400
Bloomington, IL 61702

Re: Richardson v. Meiners, (No. 89-L-1, 11th Judicial Cir., Ford County, IL)

Dear Judge Bernardi:

I am writing to advise you of the position of the Office of the Comptroller of the Currency (OCC), a non-party to the above referenced suit, concerning the plaintiff's interest in obtaining directly from another non-party, First National Bank & Trust in Gibson City, IL (FN Gibson), certain documents directly relating to the OCC's supervision of that bank. Counsel for FN Gibson has just advised us of plaintiff's December 14, 1992, subpoena directed to the bank of FN Gibson's motion to quash, and of the hearing set for January 6, 1993, on that motion.

As FN Gibson has advised us, the documents in question, which were created by the bank, are attachments to the October 28, 1987, minutes of a special meeting of the bank's board of directors. The documents are described on page 4 of the bank's December 28th motion to quash. Based on the description provided by FN Gibson, the documents denoted as items (a) and (b) are clearly examination-related and are subject to the restrictions described in this letter.

As explained below, our position is based on federal banking regulations, 12 Code of Federal Regulations [CFR] 4.18(c) and 12 CFR 4.19.

The OCC is a bureau of the U. S. Treasury Department responsible for the chartering, supervision, and regulation of national banks. See generally 12 U.S.C. Sections 1, 27, and 481. FN Gibson is a national bank chartered and regulated by OCC. Pursuant to the federal "housekeeping" statute, 5 U.S.C. 301, which authorizes each federal agency to prescribe regulations governing the "custody, use and preservation of its records, papers and property," the OCC has promulgated regulations restricting access to OCC examination reports and related documents and establishing a procedure for litigants to seek access to them.

Specifically, 12 CFR 4.18(c) provides that examination reports are OCC property and restricts access thereto. In pertinent part, the regulation states:

> The Comptroller of the Currency makes available to each national bank . . . a copy of the report of examination of such bank . . . . The report of examination is the property of the Comptroller and is loaned to the bank . . . for its confidential use only. Under no circumstances shall the bank or holding company or any director, officer or employee thereof make public or disclose *in any* manner the report of examination *or any portion of the contents thereof* to any person or organization not officially connected with the bank . . . . Any other disclosure or use of this report except as expressly permitted by the Comptroller of the Currency may be subject to the penalties provided in 18 U.S.C. 641. (Emphasis added.)

The language of section 4.18(c) indicates that not only examination reports themselves but all information directly relating to such reports are covered by the restriction. This logical extension of the restriction on release of such information has been upheld by the courts. *See In re Atlantic Financial Securities Litigation*, C.A. No. 89-645, 1992 U.D. Dist. LEXIS 2619 (E.D. Pa. March 3, 1992). *See* also *LLMD of Michigan, Inc. v. Marine Midland Realty Credit Corp.*, No. 89-9163, E.D. Pa., Order, December 18, 1991, attachment "A" to letter.

Additionally, 12 CFR 4.19, which governs testimony and production of documents in court, prohibits OCC employees from furnishing OCC documents in compliance with a subpoena, order, or otherwise without prior written authorization from the Comptroller. The regulation goes on to state that if a litigant seeks documents from the OCC, "an affidavit by the litigant or his attorney setting forth the interest of the litigant and the testimony or documents desired must be submitted to the Comptroller before authorization will be granted."

Taken together, these two regulations require that parties in litigation must seek approval from the OCC to obtain and use OCC examination reports and examination-related documents in court. This requirement is imposed even when, as in this case, either or both of the parties were previously authorized to have access to such documents, and it applies notwithstanding the availability of a protective order.

Regulations similar to 12 CFR sections 4.18(c) and 4.19 have been upheld by the federal courts, and OCC's regulations have been specifically upheld. *Marcoux v. Mid-States Livestock*, 66 F.R.D. 573 (W.D. Mo. 1975). After discussing the origin of the federal "housekeeping" statute in the administration of President George Washington in 1789, the *Marcoux* case goes on to hold:

> . . . the sole issue to be determined by this Court is whether the Comptroller of the Currency possesses the power to promulgate departmental regulations, thereby reserving to himself the authority to determine when department documents, records and information may be disclosed to the public. On this narrow issue, it is hereby concluded that this case is controlled by the rulings of the Supreme Court in *United States ex rel. Touhy v. Ragen*, 340 U.S. 462 . . . (1951) and *Boske v. Comingore*, 177 U.S. 459 . . . (1900) . . . Under these circumstances, it is found that the regulations are valid [and] . . . have the force and effect of law . . .

66 F.R.D. at 578-579

Moreover, the federal courts have held that discovery of OCC's examination reports may not be obtained from parties other than OCC, including a national bank in possession of the report or the documents. *Bank of America Nat'l Trust & Savings Ass'n v. Hotel Rittenhouse Associates*, 101 F.R.D. 10, 11 (E.D. Pa. 1983). The decision whether to assert any privilege that may attach to this material rests with the Comptroller. *Id.*

Under the procedure established in 12 CFR 4.19, the requester submits a request in affidavit form to the OCC's Litigation Division in Washington, D.C. Along with the request, the requester should submit a copy of the relevant pleading, such as a complaint or cross complaint, which sets out that party's allegations. The request should describe with as much specificity as possible the documents sought and why the OCC's information is believed to be relevant and necessary. It appears that the OCC information sought by subpoena may be protected by privilege, and the OCC would consider any request pursuant to the balancing factors recently enunciated in *In re: Subpoena Served Upon the Comptroller and the Board of Governors*, 967 F.2d 630 (D.C. Cir. 1992). Accordingly, plaintiff should address these factors in his request.

In setting out the procedural requirements that apply to this situation, we are aware that the subpoena in question seeks the documents for a hearing scheduled for January 20, 1993. While the OCC would attempt to process any request it might receive as expeditiously as possible, the OCC is not required to disrupt the orderly routine it has established to address all such requests to satisfy this plaintiff's eleventh hour request. *See Collins v. Shearson/American Express, Inc.*, 112 F.R.D. 227, 229 (D.D.C. 1986). Consequently, plaintiff, as part of any request it might submit, should explain what prevented him from seeking this information at an earlier time.

We trust that this advice will serve as a sufficient basis for you to quash plaintiff's subpoena and require that plaintiff seek the OCC's permission to obtain the documents under the procedure established in 12 CFR 4.19. In this connection, I respectfully advise you that state court orders requiring that a federally regulated financial institution produce the regulator's documents could lead to a removal of the case to federal court on this issue. *Federal Home Loan Bank Board v. Superior Court of the State of Arizona*, 494 F. Supp. 924 (D. Ariz. 1980). Cf. *Boron Oil Co. v. Downie*, 873 F.2d 67, 70 (4th Cir. 1989) (following removal to federal court, doctrine or sovereign immunity was held to preclude a state

court from compelling federal employee's testimony without federal agency's approval)

Furthermore, if F N Gibson were to produce this document without the OCC's authorization, the bank would be considered for sanctions by the OCC, as provided in 12 CFR 4 18(c)

Lester N Scall
Senior Trial Attorney
Litigation Division

* * *

613—January 15, 1993

This is in response to your letter dated May 21, 1992, from *** (bank) to *** *** concerning the treatment of leases for real property previously used by the bank in its business. Specifically, you requested reconsideration of the opinion of the legal staff of the Office of the Comptroller of the Currency (OCC) that the rules which apply to the divestiture of other real estate owned (OREO) by a national bank also apply to leases for real property which the bank formerly used in its banking business. You indicated in your letter that the bank is in the process of consolidating and closing a number of facilities which were acquired by the merger between the bank and *** *** National Bank. Many of the facilities are held under long-term leases, with terms that exceed ten years. It should be noted that the issues you raise apply equally to lease that the bank itself negotiated for its banking premises and may subsequently decide to close in addition to leases acquired by the merger. The leases may include space used as branch offices as well as back office operations.

Pursuant to 12 U S C 29, a national bank may hold real property for use in its banking business. However, when banking premises are no longer used for the business of banking, the former banking premises become classified as OREO. *See* 12 CFR 7.3025(a)(2) OREO is subject to a five-year holding period, which can be extended for an additional five years with the approval of the OCC *See* sections 29 and 7 3025(e) Section 29 was enacted to prevent national banks from speculating in real estate and to prevent the accumulation of large amounts of real property *See Union National Bank Saint Louis v Matthews*, 98 U S 621 (1879).

The OCC has concluded that section 29 is the legal basis which permits national banks to lease real property for use in its banking business. *See* Interpretive letter dated December 26, 1983 by Charles F Byrd, Assistant Director, Legal Advisory Services Division (Unpublished) (Byrd letter) Therefore, with respect to long-term leases, leased premises that are no longer used for banking purposes must be divested within five years, or within ten years if an extension is granted by the OCC. The OCC has also opined that to effectively toll the statutory holding period of section 29, the divestiture of leased premises may be accomplished either by termination or assignment of the lease, or by coterminous sublease of the property. *See* Interpretive Letter Number 491 (November 1989), [1989-1990 Transfer Binder] Federal Banking L. Rep. (CCH) ¶ 83,074 at 71,184 (September 6, 1989).

In your letter, you advocate (1) the bank should be permitted to divest leased premises by termination, assignment, coterminous sublease, non-coterminous sublease, or other means, without reference to the holding periods in section 29, (2) even if the holding periods are applicable, that a legally binding non-coterminous sublease should toll the holding period, and (3) the bank should be able to exercise an option to extend the lease term.

The staff of the OCC has considered your comments but does not believe that a change in the application of the divestiture requirements to former leased premises is appropriate. The OCC appreciates that under some circumstances the divestiture of long-term leases may be difficult. However, the application of section 29 to the divestiture of leases is consistent with long-standing OCC interpretation and the statutory purpose of section 29. *See* Byrd Letter (Footnote 1) ("[J]udicial decisions on point look only to whether the type of property being leased is real property rather than whether a lease itself is real property. Accordingly, [section] 29 governs a lease of real property even though a lease is personal property.")

As to the suggestion that a non-coterminous lease should toll the holding period, it is our opinion that such tolling would have the effect of permitting the bank to remain subject to long-term leases for potentially an indefinite period of time. This result would be inconsistent with the purpose of section 29, which is to prevent banks from controlling large amounts of property and to prevent speculation. In addition, to permit tolling would greatly diminish the incentive for banks to divest themselves of reversionary interests in property no longer used for banking purposes. *See* Interpretive Letter Number 491, *supra*. It would also diminish the need for bank management to evaluate the prudence of entering into numerous long-term leases, rather than short-term leases with options to renew. A long-term lease may not always be the best economic decision for a particular piece of property given changing demographics and the bank's responsibility to review its own business objectives.

The OCC also disagrees with your last suggestion that the bank should be permitted to exercise options to extend the lease if the option is a part of the original lease agreement. In Interpretive Letter Number 491, the OCC expressed the view that the option to extend a lease could be retained only if, with the lessor's consent, the sublessee replaces the bank as lessee and agrees to assume all of the obligations. While sublease of the property may be easier or more profitable if the bank is permitted to sublet the former leased premises with options to extend the term, the bank's "paramount obligation is to dispose of its interest in the lease at the earliest possible date, consistent with 12 U.S.C. 29 . . . ." Interpretive Letter Number 491, *supra*. Permitting a sublessee to exercise an option to extend a lease would be inconsistent with this requirement because extension would prolong the bank's status as lessor, as well as its economic exposure on the lease, beyond the minimum time in which it could be terminated.

While this letter reaffirms our previous position regarding the application of section 29 and its divestiture requirements to the leases of real property by a national bank for use in its banking business, the OCC also would like to clarify what actions the bank may take to minimize the economic burden of those lease obligations. A national bank that cannot negotiate the divestiture of a lease, as discussed above, may nevertheless enter into a sublease of that property on a non-coterminous basis, at whatever price the bank can negotiate, in order to limit its economic exposure. The language in Interpretive Letter Number 491, *supra,* was not intended to exclude the ability of a national bank to negotiate a non-coterminous sublease if no other options are economically feasible. The bank should recognize, however, that such an action will not eliminate the violation of section 29 if the unexpired term of the lease exceeds the permissible statutory holding period. Moreover, the bank can expect the lease to continue to be cited as a violation in the report of examination and to be monitored by the examiners.

It also may be worth noting that, while one or more leases may be cited as a violation of section 29, that does not automatically mean that the bank will be subjected to corrective action. The decision to seek corrective action is a supervisory determination that will be made on a case-by-case basis and will be heavily dependent on the facts of each case. The extent to which good faith efforts have been made to terminate the lease in a manner consistent with section 29, how well the bank's efforts are documented, the number of such leases and their remaining terms, whether such leases were acquired through a merger with another financial institution, and the adequacy of the bank's leasing policy are all factors to be considered.

Peter Liebesman
Assistant Director
Bank Operations and Assets Division

* * *

614—January 15, 1993

This is in response to your inquiry concerning statutory provisions from three states that purport to impose requirements on lenders, including national banks, that issue credit cards to customers in those states. In your letter, you opined that such statutes would not be applicable to national banks. For the reasons discussed below, I agree with your conclusions.

Visitation and Enforcement Authority

With limited exceptions, Congress has granted the Office of the Comptroller of the Currency (OCC) exclusive supervision and enforcement authority with respect to national banks. 12 U.S.C. 484(a); 12 CFR 7.6025(b). The only exception to this rule is found in 12 U.S.C. 484(b), which permits a very limited state review of national bank records to ensure compliance with state escheat or unclaimed property laws and, even then, only upon "reasonable cause."

The Supreme Court has stated that "no state law or enactment should undertake to exercise the right of visitation over a national corporation." *Guthrie v. Harkness*, 199 U.S. 148, 159 (1905). The term "visitation" has been expansively defined to include any act of a superintending official to inspect, regulate, or control the operations of a bank to enforce the bank's observance of the law. *First National Bank of Youngstown v. Hughes*, 6 F. 737, 740 (6th Cir. 1881), *appeal dismissed*, 106 U.S. 523 (1883). Although there may be no comprehensive definition of "visitorial" powers, they certainly include the examination of a bank's books and records. *National State Bank, Elizabeth, N.J. v. Long*, 630 F.2d 981 (3d Cir. 1980). Furthermore, state-law-required registrations and investigations of national banks are "visitations" and, therefore, are preempted by federal law as an unauthorized state attempt to superintend or regulate a national bank's activities. *See* Letter for James F.E. Gillespie, Jr., Senior Attorney, Legal Advisory Services Division (LASD) (Aug. 11, 1986) (unpublished) (Gillespie letter).

The enforcement authority of the OCC has not been limited to the enforcement of federal law. Although

states have an important interest in ensuring that their laws are obeyed, the OCC is the exclusive regulator of national banks. It is therefore the province of the OCC, not state regulators, to examine national banks for compliance with state laws. *Long*, 630 F.2d at 988. *See generally* 12 U.S.C. 1818(b) *et seq.* *Cf. Conference of Fed. Sav. & Loan Ass'ns. Stein*, 604 F.2d 1256 (9th Cir.), *aff'd mem.* 445 U.S. 921 (1979) (federal regulator is the proper authority to enforce state laws applicable to federal thrifts). Congress has delegated to the OCC the authority to issue cease and desist orders and to take other enforcement actions, including levying civil money penalties, against national banks to ensure that they comply with laws applicable to them, including state laws. *Long*, 630 F.2d at 988-89. *See generally* 12 U.S.C. 1818(b) *et seq.*

In light of the foregoing legal authority, the OCC consistently has maintained that state attempts to exercise supervisory and enforcement authority over national banks are preempted. *See, e.g.*, Interpretive Letter No. 475, [1989-1990 Transfer Binder] Fed. Banking L. Rep. ¶ 83,012 (Mar. 22, 1989); Gillespie letter, *supra*; letter from Peter Liebesman, Assistant Director, LASD (Dec. 13, 1983) (unpublished); Interpretive Letter No. 122, [1981-1982 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,203 (Aug. 1, 1979). As the regulatory agency charged with administering the national banking laws, the OCC's interpretation is entitled to deference. *Clarke, v. Securities Indus. Ass'n*, 479 U.S. 388, 403-04 (1987).

Federal Preemption of State Banking Laws

Most of the state statutes about which you inquired involve attempts by the states to exercise supervisory powers over national banks and are preempted with respect to national banks.

The Idaho Credit Code[1] (Idaho Code) requires credit card issuers, licensed in the state, to maintain records that will enable the Director of the Department of Finance (director) to determine whether the licensee is complying with the provisions of the Idaho Code. Idaho Code 28-46-304(1). The Idaho Code also requires issuers of credit cards to Idaho residents to file both a composite annual report and an annual notification with the director. Idaho Code 28-46-202 and -304(2). While the Idaho Code provides that some examination, investigation, and enforcement powers over supervised financial organizations, including national banks, should be exercised by their appropriate regulator, the director is given the authority to exercise all other powers of the statute over such supervised institutions. Idaho Code 28-46-105(1). In addition, the director is authorized to bring civil actions to restrain violations of the Idaho Code and to recover civil penalties for repeated and intentional violations. Idaho Code sections 28-46-110 and -113(2). These Idaho Code sections purport to grant visitorial powers to the director over national bank credit card issuers, inasmuch as they mandate maintaining records and filing notifications with the director and provide that statutory violations are subject to civil action by the director. As such, these provisions are preempted with respect to national banks. The OCC, rather than state officials, will enforce any state laws that apply to national banks.

The Wisconsin Consumer Act (Wisconsin Act) requires any person, including a national bank, making consumer credit transactions in which a finance charge exceeding 12 percent is imposed, to file a notification with the Commissioner of Banking (commissioner) within 30 days after commencing business within the state and annually thereafter. Wis. Stat. 426.201. An annual fee based on the issuer's average monthly outstanding credit balance must be paid by all persons required to file notifications. Wis. Stat. 426.202(2). The Wisconsin Act also requires such persons to submit data to the commissioner to support computation of the annual fee. Wis. Stat. 426.202(4). The notification requirement is mandatory and failure to comply is grounds for legal action, which may be brought by the commissioner, to recover fees or civil action to recover civil money penalties against violators of the notification and fee requirements. Wis. Stat. 426.301. Clearly, the required submission of financial records is an exercise of visitorial power over national bank credit card issuers and is preempted. The notification requirement and enforcement provision likewise are exercises of visitorial power and are preempted with respect to national banks. *See* Letter from Mitchell G. Stern, Senior Attorney, Central District (June 26, 1989) (opining that the notification requirement of the Wisconsin Consumer Act constitutes an act of bank supervision which is preempted by federal law) (unpublished). Accordingly, the commissioner may not enforce these statutory requirements against national banks.

The Wyoming Uniform Consumer Credit Code's notification requirement is substantially similar to those in the Idaho Code and the Wisconsin Act. *See* Wyo. Stat. sections 40-14-630 and -631. State officials are authorized to bring legal actions to recover fees or civil action to recover civil money penalties against violators of the state's notification and fee requirements. *See*

1 [illegible] Credit Code appears to exempt out of state issuers from [illegible]. However, any credit card issuers, including national [illegible] an out-of-state mailing address would not [illegible] the Idaho Credit Code ostensibly applies to [illegible] that issue credit cards, as well as any [illegible] processing facilities located in that [illegible]

Wyo. Stat. sections 40-14-610 and -613(b) *See also* Wyo. Stat. section 40-14-605. Although the Administrator of the Banking Division has not enforced these provisions against national banks, the statutory requirements remain in the Code. The Wyoming notification and enforcement provisions are preempted with respect to national banks.

Licensing Authority

As instrumentalities of the federal government, national banks' powers are granted by Congress. One of the powers expressly granted to national banks by federal law is that of lending money on personal security. 12 U.S.C. 24 (Seventh). The exercise of this power cannot be subject to the approval of state officials, and states have no power to require national banks to obtain a license to engage in an activity that is permitted to them by federal law. *See Bank of America v. Lima,* 103 F. Supp. 916 (D. Mass. 1952). The OCC consistently has taken the position that state laws that attempt to license the lawful activities of national banks, whether domiciled in that state or not, are preempted. *See, e.g.,* letter from Bruce Oliver, Attorney, Northeastern District (Apr. 26, 1988) (unpublished) (lending to out-of-state borrowers); letter from Richard V. Fitzgerald, Chief Counsel (Oct. 22, 1986) (unpublished) (license to operate); Gillespie letter, *supra* (securities brokerage); Interpretive Letter No. 122, *supra* (municipal finance consulting); letter from Roberta Walsh Boylan, Assistant Director, LASD (June 14, 1978) (unpublished) (out-of-state loan servicing).

The Idaho Code prohibits the issuance of credit cards by issuers, including national banks, which are either located in Idaho or use an Idaho mailing address, to Idaho residents unless the issuer first obtains a license form the Director of the Department of Finance. Idaho Code sections 28-46-301 through -303. These sections of the Idaho Code, relevant to licensing, are preempted with respect to national banks.

Conclusion

In sum, the Idaho, Wisconsin, and Wyoming statutes about which you inquired impose state licensing requirements upon national banks or subject national banks to visitation or enforcement by state officials. These provisions are preempted with respect to national banks.

Wallace S. Nathan
Director
Bank Operations and Assets Division

* * *

615—February 2, 1993

This is in response to your letter to *** dated June 3 1992, regarding certain letters of credit issued for the benefit of an automobile manufacturer. Your letter follows a recent examination in which these contractual agreements entered into by the Dealer Corporate Services Division of *** (bank) were the subject of particular concern to the Office of the Comptroller of the Currency (OCC). Specifically, a recent examination raised the question of whether the bank was able to adequately control its lending exposure under the terms of the letter of credit or whether the agreement could force the bank to lend in excess of its lending limit to one borrower. You requested that we review certain issues related to this question. We conclude that the automobile manufacturing industry's standardized letter of credit should be amended at the next available opportunity in order to address the concerns developed below.

Background

The bank provides automobile dealer inventory financing under a typical "floor planning" arrangement. Under the floor planning arrangement, the bank establishes a line of credit for its customer, the dealer, which will serve as the direct source of payment to the automobile manufacturer for vehicles purchased by the dealer. In order to participate in this financing, the manufacturer requires that the bank enter into an industry standardized form of a letter of credit, commonly referred to as a "drafting agreement," which it employs to facilitate payment for all vehicles shipped to its dealers. Pursuant to the terms of this drafting agreement, the bank contracts to pay all drafts properly presented by the manufacturer for vehicles shipped to the dealer. The relevant terms of the drafting agreement are discussed more fully below.

Discussion

A commercial letter of credit is a written commitment by the issuer, in this case the bank, to pay drafts or other demands for payment made by the beneficiary, in this case the manufacturer, that comply with the terms of the credit agreement.[1] The OCC generally authorizes national banks to issue letters of credit provided that the credit contracts meet the standards set forth at 12 CFR 7.7016. This Interpretive Ruling prescribes standards for all letters of credit issued by national banks. The rule states that "as a matter of sound banking practice" letters of credit should be issued in a form that ensures:

[1] *See* UCC 5 103(1) (West 1990)

1) that such instruments are conspicuously labeled as letters of credit

2) that the bank's obligation to pay arises only upon presentation of specified documents;

3) that the customer has the "unqualified obligation to reimburse";

4) that the bank's undertaking "contain a specified expiration date or be for a definite term" and

5) that the "bank's undertaking . . . be limited in amount."[2]

The form of the letter of credit at issue here raises the question of whether the bank's lending commitment is sufficiently quantifiable to satisfy the last of these standards.

The drafting agreement specifically states that the manufacturer is under no obligation to regulate the total number of vehicles shipped or to limit the aggregate drafts presented for payment. However, the bank's obligation is not open-ended. The drafting agreement restricts the bank's payment obligation (1) by providing a "daily limit" on the aggregate amount of drafts that can be presented in any one day; and (2) by stipulating that the bank may terminate its commitment "at any time." The daily limit does not affect the number of vehicles that a manufacturer may ship to its dealer, but serves only to regulate the dollar amount of drafts that it may present in one day. It is our understanding that a manufacturer may, and frequently will, ship vehicles to its dealer without regard to the daily limit, presenting demands for payment on those vehicles over the ensuing days, weeks, or months, in accordance with the daily limit. If the bank terminates the agreement, it must honor all drafts presented for vehicles shipped through the second business day after notice is given to the manufacturer. This could mean that in addition to drafts for the vehicles shipped during this two-day notice period, the bank's obligation may extend to cover drafts for a significant backlog of vehicles shipped earlier but not yet presented for payment. Under the terms of the drafting agreement, the bank must pay on all these properly presented drafts, even after the dealer's line of credit is exceeded, and even if the payment will cause the bank to extend credit in excess of its established lending limit.

For example, suppose a bank establishes a $1,000,000 line of credit for a dealer and enters into the standard drafting agreement. During the course of the year the manufacturer promotes certain vehicles by shipping them without presenting drafts for payments on the promoted vehicles; resulting in a backlog of $300,000 worth of vehicles in the dealer's inventory that have not been paid for by the bank and of which the bank is unaware. Suppose further that the bank terminates the drafting agreement, triggering the two-day notice provision. The manufacturer continues shipments during the notice period and delivers to the dealer another $200,000 worth of automobiles.

Although a $100,000 "daily limit" clause may necessitate spreading the presentation of drafts over a five-day period, the manufacturer can properly present demands for payment on the letter of credit totaling $500,000. If the dealer owed $800,000 on the line of credit at the time the bank terminated the agreement, payment on the properly presented drafts will force the bank to extend $300,000 more than the $1,000,000 line of credit provided. If the line of credit was established at the legal lending limit, the bank will be forced to exceed the lending limit by 30 percent.

In addition to the possible violation of the statutory lending limit of 12 U.S.C. 84, the structure of this drafting agreement creates supervisory uncertainty. Stated simply, at the time it terminates the agreement, the bank cannot quantify its ultimate lending exposure under the agreement. This inability to quantify the outer limits of the bank's lending obligation is a supervisory concern. The terms of the drafting agreement should be amended to address this open-ended lending obligation.

Analysis

The OCC has previously analyzed automobile manufacturer drafting agreements. In Interpretive Letter No. 239, Fed. Banking L. Rep. (CCH) ¶ 85,403 (March 10, 1982), we addressed the question of whether a drafting agreement was sufficiently specific as to the dollar amount and the contract term under the OCC's minimum standards for letters of credit in 12 CFR 7.7016.

Letter No. 239 observed that the drafting agreement did not contain a specific expiration date or specify a definite term. However, the letter determined that the bank's ability to terminate the agreement "at any time" was sufficient to satisfy the requirements of Interpretive

Ruling 7.7015.[3] The drafting agreement did not specify a limit on the amount of the bank's undertaking. However, Letter No. 239 opined that the bank's ability to terminate the agreement "at any time" worked in conjunction with the daily limit to proscribe the bank's undertaking in a manner sufficient to satisfy the Interpretive Ruling. *See* Fed. Banking L. Rep. (CCH) ¶ 85,403 (March 10, 1982), at 77,506.

As highlighted by the hypothetical example described above, the terms of the drafting agreement do not permit a bank to quantify its total loan obligation at any specific point during the course of the floor planning arrangement. Letter No. 239 did not raise this specific concern but addressed the general question of adequacy under the Interpretive Ruling. However, the letter reemphasized the obligation of the lending institution to monitor compliance with its lending limit.

> Our conclusion that Chrysler's letter of credit meets the standards of 12 CFR 7.7016 should not be interpreted as relieving the dealer bank of responsibility to monitor closely its floor plan and other credit arrangements with Chrysler dealers. Assuming that the bank engages in such monitoring to assure that floor plan limits and lending limits are not exceeded and that prudent credit judgements are being made, we believe a national bank may safely and soundly issue Chrysler's Clean Letter of Credit.

Fed. Banking L. Rep. (CCH) ¶ 85,403 (March 10, 1982), at 77,506.

Upon review of the drafting agreement submitted by the bank and for the reason cited above, we believe that the bank cannot assure that its lending limit is not exceeded. This is an extension of the general concerns raised earlier in Letter No. 239. As demonstrated, following termination of the agreement, the bank is exposed to demands for payment to the manufacturer both for vehicles shipped but not immediately invoiced and for vehicles shipped during the two-day cancellation period. These contingencies may force the bank to lend in excess of its internal limits or in some cases, violate the statutory lending limit of 12 U.S.C. 84.

Moreover, as a matter of prudent banking practice, the bank should be capable of quantifying its lending exposure at the moment it terminates the drafting agreement. Accordingly, the drafting agreement should be modified in a manner that provides a level of certainty regarding these aspects of the credit obligation. For example, the drafting agreement could be amended to require that all drafts be presented within two days of shipment. This condition, together with the daily limit, would prohibit presentation of a backlog of drafts for vehicles delivered weeks or months earlier. The condition would also ensure that the manufacturer does not deliver more vehicles than it can demand payment for during the two-day termination period. Alternatively, the drafting agreement could be modified to require that the manufacturer provide the bank with some form of contemporaneous notice of its shipments to the dealer. To be useful, this notice should be sufficiently detailed and timely to enable the bank to adequately monitor its lending obligation.

We note that the suggested amendments are offered only for purposes of illustration, recognizing that the final form of any amendment to the drafting agreement is solely a matter for the interested parties to negotiate. The final form of the amended agreement should enable the bank to prevent any extension of credit beyond its lending limit and to assure that its credit judgments are fully informed and made in a safe and sound manner.

Conclusion

The drafting agreement provided for our review is not sufficiently definite as to the amount of the bank's undertaking. In our view, the drafting agreement is not a letter of credit issued in conformity with the standards of Interpretive Ruling 7.7016. The drafting agreement should be amended in any manner that enables the bank to quantify its lending exposure at the time it terminates the agreement.

Peter Liebesman
Assistant Director
Bank Operations and Assets Division

* * *

616—February 26, 1993

This letter responds to your request for a legal opinion regarding whether federal law would preempt the state filing requirement found at chapter 140, section 114C

[3]Although 12 CFR 7.7016 was intended "to establish guidelines for the safe and sound issuance of letters of credit," Final Interpretive Ruling Letters of Credit, 42 Fed. Reg. 24206, 24206 (May 12, 1977), the standards have supervisory significance. The preamble to the proposed rule stated that these standards "should not be interpreted as creating a federal common law on what constitutes a valid and enforceable letter of credit." While national bank's are expected to adhere to the standards, the rule is not intended "to suggest that a letter of credit lacking one or more of the five specified characteristics would thereby be rendered unenforceable." Letter of Credit: Proposed Standards for Issuance By National Banks, 41 Fed. Reg. 47258, 47258 (October 28, 1976). Letter No. 239 was drafted in response to more limited circumstances which did not raise supervisory issues such as those discussed here.

of the Massachusetts statutes as applied to national banks. This section requires credit card issuers to report quarterly to the Massachusetts Commissioner of Banks the finance charge rate and other fees charged to Massachusetts cardholders during the quarter, as well as the conditions under which a finance charge may be imposed.[1] For the reasons discussed below, I agree that the reporting requirement in this statute is preempted by federal law.

The Office of the Comptroller of the Currency (OCC) is authorized by federal law to appoint examiners to examine all national banks. 12 U.S.C. 481. In addition, section 484(a) of Title 12, United States Code, ensures that

> No national bank shall be subject to any visitorial powers except as authorized by Federal law, vested in the courts of justice or such as shall be, or have been exercised or directed by Congress or by either House or by any committee of Congress or of either House duly authorized.

The section continues by granting one exception — that state auditors and examiners may review a national bank's records solely to ensure compliance with applicable state unclaimed property or escheat laws, but only upon reasonable cause to believe that the bank has failed to comply with such laws. 12 U.S.C. 484(b). Another provision of federal banking law specifically allows parties other than representatives from the OCC to inspect books or records of a national bank. 12 U.S.C. 62. This section relates to the rights of shareholders, creditors, and certain tax officials to inspect the list of shareholders of a bank. *See also* 12 CFR 7.6025. Section 8(t) of the Federal Deposit Insurance Act (12 U.S.C. 1818(t)) provides the Federal Deposit Insurance Corporation with back-up enforcement authority against insured depository institutions, including national banks. Other provisions of federal law provide limited instances wherein national banks must follow special procedures to make available employment information for verifying payroll records for unemployment compensation purposes, 26 U.S.C. 3305(c), for enforcing the Fair Labor Standards Act, 29 U.S.C. 211, and for ascertaining the correctness of federal tax returns, 26 U.S.C. 7602. *See* 12 CFR 7.6025. The few specific, narrow exceptions to the visitation prohibition in 12 U.S.C. 484(a) evidence an intent by Congress that the OCC exercise nearly exclusive visitorial powers upon national banks. The fact that the states have no general authority to examine the books, records, and assets of national banks is further supported by 12 U.S.C. 92a(c), which expressly permits state authorities a limited right of access to reports of examination prepared by the OCC relating to trust activities of national banks.

The term "visitation" has been expansively defined to include any act of a superintending official to inspect, regulate, or control the operations of a bank to enforce the bank's observance of the law. *First National Bank of Youngstown v. Hughes*, 6 F. 737, 740 (6th Cir. 1881), *appeal dismissed*, 106 U.S. 523 (1883). Although there may be no comprehensive definition of "visitorial" powers, they certainly include the examination of a bank's books and records. *National State Bank, Elizabeth, N.J. v. Long*, 630 F.2d 981 (3d Cir. 1980). Furthermore, state-law-required registrations and investigations of national banks are "visitations" and, therefore, are preempted by federal law as an unauthorized state attempt to superintend or regulate a national bank's activities. *See* letter from James F.E. Gillespie, Jr., Senior Attorney, Legal Advisory Services Division (Aug. 11, 1986) (unpublished).

The Massachusetts statute requiring card issuers to provide information to the Commissioner of Banks is a form of visitation by state authorities upon national banks issuing credit cards to residents of the state. Based on well-established preemption principles, in my opinion, the Massachusetts statute in question is preempted by 12 U.S.C. 484. Although national banks cannot be compelled to submit disclosures to the Commissioner of Banks, no statute, regulation, or policy of the OCC would prohibit a bank from providing the information voluntarily if the bank's board of directors decides that it is in the bank's best interest to do so.

Similar types of disclosure requirements, imposed by states on national banks, have been addressed by OCC staff interpretive letters in the past. These letters also concluded that such provisions were preempted by federal law and not applicable to national banks, however, national banks could voluntarily comply. *See, e.g.*, letter from Mitchell G. Stern, Senior Attorney, Central District (June 26, 1989) (unpublished) (Wisconsin law requiring national banks to submit information regarding the total amount of consumer credit that the

---

[1] The Massachusetts statute states, in pertinent part:

> A card issuer shall report quarterly to the commissioner the finance charge rate expressed as an annual percentage rate and the amount of any annual or other fee charged during the preceding quarter to its cardholders and the conditions under which a finance charge may be imposed, including the time period within which any credit extended may be repaid without incurring a finance charge.

Mass. Ann. Laws ch. 140, §114C (Law. Co-op. 1992). A "card issuer" [illegible] of chapter 140D as "any person who issues a credit card, [illegible] such person with respect to such card." Mass. Ann. Laws ch. 140D, §1 (Law. Co-op. 1992). A "person" is [illegible] or an organization." *Id.* It is apparent [illegible] statute would include national banks [illegible]

banks finance constitutes a visitation under 12 U.S.C. 484); letter from John G. Heimann, Comptroller of the Currency (Dec. 11, 1978) (unpublished) (Michigan statute requiring periodic reporting of lending practices preempted by 12 U.S.C. 484 and the Home Mortgage Disclosure Act of 1975); letter from John E. Shockey, Acting Chief Counsel (July 14, 1976) (unpublished) (Massachusetts law requiring mortgagees, who under state law must pay interest on mortgage escrow accounts, to report annually to the Commissioner of Banks the amount of net profit or loss from the investment of such accounts is inapplicable to national banks based on 12 U.S.C. 484); letter from Robert Bloom, Chief Counsel (May 16, 1975) (unpublished) (Proposed Florida legislation requiring financial institutions to report the interest rate charged by them to state officials for the purpose of setting an interest rate ceiling would likely not be applicable to national banks pursuant to 12 U.S.C. 484).

William B. Glidden
Assistant Director
Bank Operations and Assets Division

* * *

617—March 4, 1993

This is in response to your letter dated January 12, 1993, requesting an interpretive letter concerning whether a national bank may purchase for its own account limited partnership units in *** (partnership), which will soon be formed and licensed as a small business investment company (SBIC). For the reasons given below, in my opinion a national bank may purchase limited partnership units in the partnership after it has been licensed as a SBIC. Furthermore, the national bank may receive distributions from the partnership consisting of stock of companies which borrow from or are invested in by the SBIC.

The Small Business Investment Act of 1958 (the act), as amended, provides that a SBIC can be organized as a corporation or a limited partnership. 15 U.S.C. 681(a). The act also provides, in pertinent part, that "*shares of stock* in small business investment companies shall be eligible for purchase by national banks . . ." 15 U.S.C. 682(b) (section 682(b)) (Emphasis added). Therefore, the first issue to be resolved in this letter is whether a national bank may invest in a limited partnership unit of a SBIC, such as the partnership.

National banks may become limited partners in a partnership where the liability of the bank is limited and the partnership engages solely in activities permitted for investment by a national bank. OCC Interpretive Letter No. 435, *reprinted in* [1988-1989 Transfer Binder] Fed. Banking Law Rep. (CCH) ¶ 85,659 (June 30, 1988). In your letter, you state that the partnership will enjoy limited liability under either Delaware or Maine partnership law and that the partnership will operate as a SBIC, which is a permitted investment for a national bank under section 682(b).

Section 682(b) contains enabling language that makes a national bank "eligible" to purchase stock in a SBIC. Section 682(b) does not prohibit investment by a national bank in a SBIC organized as a limited partnership. *See* 15 U.S.C. 682(b) and 681(a). It should therefore be legally permissible for a national bank to purchase a limited partnership unit of a SBIC organized as a limited partnership. This is supported by an unpublished OCC Interpretive Letter, dated November 1, 1979, which concluded that a national bank could become a limited partner in a SBIC organized as a limited partnership.

The next issue concerns the timing of the investment. You state that national bank investors may be requested to make an initial equity investment in the partnership before the partnership is approved and licensed by the SBA. Section 682(b) enables national banks to invest in SBICs, which are defined to mean "a company *approved* by the Administration (SBA) to operate under the provisions of this chapter *and issued a license* as provided in section 681 of this title." 15 U.S.C. 662(3) (Emphasis added). The statutory scheme implies that national banks are limited to investments in existing SBICs. Therefore, any potential national bank investor will have to await approval and licensing of the partnership as a SBIC by the SBA before it disburses any funds.

Finally, you ask if a national bank limited partner could legally receive distributions from the partnership in the form of the publicly traded stock of companies to which the partnership has lent funds to or in which it has made an equity investment. OCC Interpretive Ruling 7.7535 answers the question in the affirmative:

> Since a national bank may purchase the stock of a small business investment company (see 15 U.S.C. 682(b)), it may also receive the benefits of such stock ownership; e.g., stock dividends. The receipt and retention of a dividend by a national bank from an SBIC in the form of stock of a corporate borrower of the SBIC is not a purchase of stock within the meaning of paragraph Seventh of 12 U.S.C. 24.

12 CFR 7.7535

As mentioned above, a national bank can invest in a SBIC formed as either a corporation or a limited partnership. 15 U.S.C. 681(a) and 682(b). The first sentence of the ruling allows a national bank to receive the benefits of its ownership in a SBIC and provides an example of stock dividends. A partnership distribution to the limited partners would be analogous to a stock dividend issued by a corporation to its shareholders, and therefore, would fall within the scope of the ruling.

Further, a SBIC can invest in small business concerns through equity investments or through long-term loans. 15 U.S.C. 684 and 685. The second sentence of the ruling allows a national bank to legally receive and retain dividends in the form of stock of a corporate borrower of the SBIC. There is no meaningful distinction between a national bank receiving stock in a corporation in which the SBIC has made an investment and a national bank receiving stock in a corporate borrower of the SBIC. In both cases, the SBIC has some stock, and has conveyed it to its national bank owner as a dividend or distribution and, under the ruling, the transaction does not represent a purchase of stock by the national bank. Therefore, a national bank limited partner can legally receive and retain distributions from the partnership in the form of stock of small business concerns that receive either equity investments or long-term loans from the partnership.

William B. Glidden
Assistant Director
Bank Operations and Assets Division

* * *

618—March 9, 1993

During your recent examination, the examiners questioned whether certain non-recourse loans sold to the bank by home improvement dealers should be covered by the flood insurance requirements in 12 CFR 22. You addressed this issue in a letter and subsequent telephone conversations with Margaret Hesse of my staff. In my opinion, if the loans in question are made in accordance with the information you provided, they are not subject to the requirements of 12 CFR 22.

The Office of the Comptroller of the Currency (OCC) has interpreted the Floor Disaster Protection Act of 1973 (the act) to apply only to the origination of mortgage loans and not the purchase of mortgage loans in the secondary market. *See* Issuance of Guidelines, 54 Fed. Reg. 29666 (1989), *reprinted in* OCC Banking Bulletin 89-28 (Aug. 18, 1989). In addition, in a Banking Bulletin, the OCC addressed the issue raised during the examination. The Banking Bulletin stated:

> In a related matter please note that 12 CFR 22 applies only to direct loans. The regulation does not prohibit banks from purchasing manufactured home or mortgage loans, or from accepting the assignment of those loans through indirect financing arrangements, even though disclosures under 12 CFR 22 had not been provided or flood insurance under the act had not been obtained. However, if the originating creditor is an agent of the bank, the act and 12 CFR 22 fully apply as though the loan had been originated by the bank itself.

OCC Banking Bulletin 83-48 (Oct. 21, 1983), *reprinted in* 5 Fed. Banking L. Rep. (CCH) ¶ 60,770N. The home improvement loans purchased by your bank would be considered mortgage loans because the bank receives junior liens on the homeowner's properties.

The Banking Bulletin continued with an explanation of when an agency relationship between the bank and the originating creditor would exist.

> Although an agency may be expressed or implied, it is fundamentally a contractual relationship and may only be created with the consent of both parties. Essentially, the parties must be found to have agreed that on all matters within the scope of the agency the agent shall have the authority legally to bind the principal and the principal shall have the power to control the agent.
>
> By itself, a mere course of dealing, however regular and longstanding, is insufficient to give rise to an agency relationship unless it establishes the two essential elements of authority and control. For example, if the bank regularly purchases contracts from a mobile home seller, the seller would not be an agent of the bank if the bank reserves the right to review consummated credit sale transactions and conducts its own credit analysis of the borrower price [sic] to purchasing the paper. In that case, the seller would be unable, on its own, to bind the bank to the contract.

Id.

In the instant case, according to your letter and follow-up telephone conversations with Ms. Hesse, the bank determines the creditworthiness of the borrower prior to purchasing the paper. In fact, the bank typically determines the creditworthiness of a potential borrower before the home improvement dealer executes the contract. The bank also is not compelled to purchase all sales contracts from a dealer; it may purchase only those acceptable to it upon review. A dealer is free to contract with homeowners not meeting the bank's

creditworthiness standards and to sell those contracts to other financial institutions. It appears that the essential element of agency authority is missing here, i.e., the home improvement dealers cannot bind the bank in their home improvement financing contracts.

While the bank legally need not make the required disclosures and ensure that flood insurance is obtained pursuant to 12 CFR 22, it may be a question of prudent banking practice whether the bank should otherwise take appropriate steps to protect itself against flood-related losses. If, as a result of loan assignments, a substantial portion of a bank's loan portfolio includes uninsured properties in flood hazard areas, its real estate collateral could be characterized as unduly risky. In the event of a flood-related disaster, such properties may not qualify for federal disaster relief assistance.

You have indicated that the bank intends to implement a policy that would require flood insurance review and procurement when the bank purchases home improvement loans exceeding a certain amount, such as $5,000. Such a policy would seen to minimize the bank's flood loss risk pursuant to purchased loans.

William B. Glidden
Assistant Director
Bank Operations and Assets Division

* * *

619—October 14, 1992

We appreciated the opportunity to meet with you and representatives of *** National Bank to learn more about the bank's plans for improving the structure and efficiency of its trust and investment operations. As I mentioned at the meeting, we are supportive of the general objectives the bank hopes to achieve through this restructuring. We did express a few concerns that we understand the bank will address as it proceeds with its plans.

The Office of the Comptroller of the Currency (OCC) is concerned with the bank's proposal to rename its proprietary funds the "*** Funds" because some customers may believe that the funds are backed by the bank or are insured deposits. We also noted that the bank could incur liabilities under federal securities laws if customers are misled into believing that the *** Funds are backed by the bank or Federal Deposit Insurance Corporation (FDIC) through the marketing of these funds. We also discussed legislation that has been introduced in Congress that would prohibit banks from using their names for their proprietary funds because of concerns about customer confusion. We suggest that the bank consider alternative names that might avoid such confusion.

We discussed conflicts of interest that would be created by establishing an operating subsidiary that serves as investment adviser to the funds and also manages trust assets that are placed in the funds. Under OCC regulations, such conflicts are prohibited unless lawfully authorized by the trust instrument, court order, or local law. Bank staff indicated that adequate authorization exists for such an arrangement.

We also discussed the conflicts that would be created if the operating subsidiary also manages that bank's investment portfolio and understand that the bank is developing policies to control such conflicts.

William P. Bowden, Jr.
Chief Counsel

* * *

Trust Interpretations

274—February 4, 1993

This is in reply to your December 1, 1992, request for an interpretive ruling concerning Trust Banking Circular 19 (TCB-19), "Fiduciary Purchases of Bonds When Bank Participates in Underwriting Syndicates."

Your client participates with national banks in syndicates that underwrite municipal obligations. Many of the syndicates are undivided, each syndicate member is responsible for a specified share of any loss incurred by the syndicate, regardless of the amount of bonds such syndicate member sells. TBC-19 provides generally that when a national bank participates in an undivided syndicate, a rebuttable presumption of self-dealing is created if, within 60 days of the close of the syndicate, obligations of that underwriting are purchased for trust accounts. You request a ruling as to when the 60-day period commences.

Specifically, you inquire whether for purposes of TBC-19 the close of a syndicate occurs when the syndicate members are notified in writing by the manager that all bonds have been sold and the syndicate account is closed, or when the manager sends the member a written statement of their account, which is the final settlement of the syndicate account. It is your belief that the 60-day period commences when the manager sends syndicate members notice that all bonds have been sold and the account is closed because at that

time any liability of the members for account losses is fixed.

The OCC would, for purposes of TBC-19, consider that the close of a syndicate occurs when the syndicate members are notified in writing by the manager that all bonds have been sold and delivered out, and that the syndicate account is closed. The members must have written notification from the manager that these events have occurred. As a practical matter, the actual written notification of the occurrence of these events may be in the statement of the settlement of the syndicate account.

Of course, during the period that the syndicate is open and for 60 days after it closes, the fiduciary should not engage in formal or informal forward transactions for settlement after the 60-day period.

William L. Granovsky
National Bank Examiner
Compliance Management Department

* * *

275—February 12, 1993

This is in reference to the questions you have raised as to the requirements of the Office of the Comptroller of the Currency (OCC) with reference to audits of a national bank trust department.

You have pointed out that the *Comptroller's Handbook for Compliance* lists 51 audit procedures which must be considered by the examiner in determining the scope of the audit. Because there is no specific statement associated with the listing of these procedures which indicates that they are mandatory for a bank, you have drawn the inference that in carrying out its obligation under 12 CFR 9.9 to have a suitable audit every year and within 15 months of the previous audit, your bank may elect not to perform some of the functions described every year. You have asked our confirmation of your understanding of this.

As you know the *Comptroller's Handbook for Compliance* is primarily directed to the examiners of the OCC, to give them guidance in performing examinations of fiduciary activities of national banks. The 51 procedures are designed, as stated in the *Handbook*, to enable the examiner to evaluate the quality of fiduciary audit supervision and conformance to the aforecited section of Regulation 9. In carrying out these procedures, the examiner has discretion as to the amount of testing he or she will employ to verify bank performance of the function in question.

In the conduct of this part of an examination, which is, as you indicate, labelled the Risk Management Assessment, I would expect that an examiner would be very concerned upon discovering that a particular function had not been performed by the bank under examination during the past year. While this may not be an automatic criticism, it would certainly be an item for discussion; and one would expect that the bank would have to be very persuasive in justifying the non-performance of the function to escape criticism.

Dean E. Miller
Senior Advisor
for Fiduciary Responsibilities
Compliance Management Department

* * *

Mergers — January 1 to March 31, 1993

Mergers consummated involving two or more operating banks.

Page

California

March 4, 1993:
Orange National Bank, Orange, California, and
First American Capital Bank, National Association, Laguna Beach, California
Merger . . . 61

Colorado

January 1, 1993:
Vail National Bank, Vail, Colorado, and
Cherry Creek National Bank-17th Street, Denver, Colorado
Merger . . . 61

February 8, 1993:
First National Bank of Brighton, Brighton, Colorado, and
Valley Bank of Frederick, Frederick, Colorado
Merger . . . 61

Florida

March 15, 1993:
Sun Bank/South Florida, National Association, Fort Lauderdale, Florida, and
Flagler National Bank, West Palm Beach, Florida
Merger . . . 61

Indiana

January 1, 1993:
Bank One, Indianapolis, National Association, Indianapolis, Indiana, and
Bank One, Plainfield, National Association, Plainfield, Indiana
Merger . . . 61

January 30, 1992:
Merchants National Bank & Trust Company of Indianapolis, Indianapolis, Indiana, and
Anderson Banking Company, Anderson, Indiana, and
Elston Bank & Trust Company, Crawfordsville, Indiana, and
The National Bank of Greenwood, Greendwood, Indiana
Merger . . . 62

February 19, 1993:
NBD Bank, National Association, Gary, Indiana, and
Summit Bank of Clinton County, Frankfort, Indiana, and
Summit Bank of Indianapolis, Indianapolis, Indiana
Merger . . . 62

February 27, 1993:
National City Bank, Indiana, Indianapolis, Indiana, and
Hancock Bank & Trust, Greenfield, Indiana, and
Mid State Bank, Zionsville, Indiana, and
Mid State Bank of Hendricks County, Danville, Indiana, and
Union State Bank, Carmel, Indiana
Merger . . . 62

March 13, 1993:
Star Bank, National Association, Eastern Indiana, Richmond, Indiana, and
Star Bank, National Association, Southeastern Indiana, Lawrenceburg, Indiana
Merger . . . 62

March 19, 1993:
NBD Bank, National Association, Gary, Indiana, and
Summit Bank of Marion, Marion, Indiana, and
Summit Bank of Muncie, Muncie, Indiana
Merger . . . 62

Kansas

January 9, 1993:
The First National Bank of Phillipsburg, Phillipsburg, Kansas, and
The First National Bank of Logan, Logan, Kansas
Merger . . . 63

January 29, 1993:
The Farmers National Bank of Stafford, Stafford, Kansas, and
The Buhler State Bank, Buhler, Kansas
Merger . . . 63

February 12, 1993:
Bank IV Kansas, National Association, Wichita, Kansas, and
The Southgate Bank, Prairie Village, Kansas
Merger . . . 63

Kentucky

March 29, 1993:
First National Bank of Louisville, Louisville, Kentucky, and
First Kentucky Trust Company, Louisville, Kentucky
Merger . . . 63

Minnesota

January 1, 1993:
The First American National Bank of Crookston, Crookston, Minnesota, and
First American Bank of Warren, Warren, Minnesota
Merger . . . 63

March 12, 1993:
Norwest Bank Minnesota Mesabi, National Association, Virginia, Minnesota, and
Merchants & Miners State Bank of Hibbing, Hibbing, Minnesota
Merger . . . 63

Missouri

February 18, 1993:
Mercantile Bank of Trenton, National Association, Trenton, Missouri, and
American Bank of North Central Missouri, Trenton, Missouri
Merger . . . 63

Montana

January 1, 1993:
The First National Bank of Glasgow, Glasgow, Montana, and
The First National Bank of Hinsdale, Hinsdale, Montana
Merger . . . 64

Nebraska

January 14, 1993:
FirsTier Bank, National Association, Omaha, Nebraksa, and
Tri-County Bank & Trust, Bellevue, Nebraska
Merger . . . 64

January 19, 1993:
The First National Bank in Ogallala, Ogallala, Nebraska, and
United Nebraska Bank, Grant, Grant, Nebraska
Merger . . . 64

February 1, 1993:
The First National Bank of Wisner, Wisner, Nebraska, and
The Farmers National Bank of Madison, Madison, Nebraska
Merger . . . 65

March 27, 1993:
FirsTier Bank, National Association, Lincoln, Nebraska, and
Lincoln State Bank, Lincoln, Nebraska
Merger . . . 65

New Jersey

March 18, 1993:
First Fidelity Bank, National Association, New Jersey, Newark, New Jersey, and
First Fidelity Bank, National Association, South Jersey, Burlington Township, New Jersey
Merger . . . [illegible]

Page

New Mexico

[illegible]
The First National Bank of Santa Rosa, Santa Rosa, New Mexico, and
The First National Bank in Tucumcari, Tucumcari, New Mexico
Merger 65

New York

January 1, 1993
The Chase Manhattan Bank (National Association), New York, New York, and
Chase Lincoln First Bank, National Association, Rochester, New York
Merger 65

Ohio

February 28, 1993
The Security National Bank and Trust Company, Springfield, Ohio, and
The Farmers and Traders Bank, Jamestown, Ohio
Merger 66

Oklahoma

February 28, 1993
Liberty Bank & Trust Company of Tulsa, National Association, Tulsa, Oklahoma, and
First Nationa Bank, Jenks, Jenks, Oklahoma
Merger 66

Pennsylvania

February 4, 1993
Pittsburgh National Bank, Pittsburgh, Pennsylvania, and
Provident National Bank, Bryn Mawr, Pennsylvania
Merger 66

Texas

February 13, 1993
Corpus Christi National Bank, Corpus Christi, Texas, and
New First City, Texas-Aransas Pass, Aransas Pass, Texas
Merger 66
Texas Commerce Bank-Midland, National Association, Midland, Texas, and
New First City, Texas-Midland, National Association, Midland, Texas
Merger 66
Texas Commerce Bank, National Association, Houston, Texas, and
New First City-Texas, Houston, National Association, Houston, Texas
Merger 67
Texas Commerce Bank, National Association, Dallas, Texas, and
New First City-Dallas, National Association, Dallas, Texas
Merger 67
The Frost National Bank of San Antonio, San Antonio, Texas, and
New First City Texas-Austin, National Association, Austin, Texas, and
New First City-San Antonio, National Association, San Antonio, Texas
Merger 68
First National Bank of West Texas, Lubbock, Texas, and
New First City, Texas-San Angelo, National Association, San Angelo, Texas
Merger 68
First National Bank of Olney, Olney, Texas, and
New First City, Texas-Graham, National Association, Graham, Texas
Merger 68
Lufkin National Bank, Lufkin, Texas, and
New First City, Texas-Lufkin, National Association, Lufkin, Texas
Merger 68

Page

Tyler Bank and Trust, National Association, Tyler, Texas, and
New First City, Texas-Tyler, National Association, Tyler, Texas
Merger 68
February 14, 1993
Mercantile Bank, National Association, Brownsville, Texas, and
New First City, Texas-Corpus Christi, National Association, Corpus Christi, Texas
Merger 68
February 24, 1993
Texas Commerce Bank-Beaumont, National Association, Beaumont, Texas, and
New First City, Texas-Beaumont, National Association, Beaumont, Texas
Merger 69
February 25, 1993
First National Bank in Cameron, Cameron, Texas, and
The Planters National Bank of Rosebud, Rosebud, Texas
Merger 71
February 26, 1993
NationsBank of Texas, National Association, Dallas, Texas, and
Financial Resource Management Trust Company, Dallas, Texas
Merger 71
March 15, 1993
Overton Bank and Trust, National Association, Fort Worth, Texas, and
First National Bank Mansfield, Mansfield, Texas
Merger 71
March 18, 1993
Kilgore First National Bank, Kilgore, Texas, and
United Bank, National Association, Lancaster, Texas
Merger 71
March 23, 1993
Texas Bank, National Association, Lufkin, Texas, and
First State Bank, Wells, Texas, and
Bank of East Texas, Chester, Texas
Merger 71

Virginia

February 11, 1993
Jefferson National Bank, Charlottesville, Virginia, and
People's Bank of Virginia, Virginia Beach, Virginia
Merger 71

West Virginia

January 1, 1993
United National Bank, Parkersburg, West Virginia, and
United National Bank-Central, Glenville, West Virginia, and
United National Bank-North, Wheeling, West Virginia
Merger 72
January 4, 1993
First West Virginia Bank, National Association, Wheeling, West Virginia, and
Wellsburg Banking and Trust Company, Wellsburg, West Virginia
Merger 72

Wisconsin

January 1, 1993
Kellog-Citizens National Bank of Green Bay, Green Bay, Wisconsin, and
First National Bank of Sturgeon Bay, Sturgeon Bay, Wisconsin
Merger 72
February 12, 1993
Firstar Bank, Lake Geneva, National Association, Lake Geneva, Wisconsin, and
Firstar Bank Elkhorn, Elkhorn, Wisconsin
Merger 72

Mergers consummated involving national banks and savings and loan associations.

Page

California

February 19, 1993:
Clear Lake National Bank, Clearlake, California, and
HomeFed Bank, F.A., San Diego, California
Merger 72

Georgia

February 17, 1993:
SouthTrust Bank of Atlanta, National Association, Atlanta, Georgia, and
Prime Bank, Federal Savings Bank, Decatur, Georgia
Merger 72

March 1, 1993:
First Union National Bank of Georgia, Atlanta, Georgia, and
Decatur Federal Savings and Loan Association, Decatur, Georgia
Merger 73

Illinois

January 14, 1993:
The First National Bank of Harrisburg, Harrisburg, Illinois, and
Bank South, A Federal Savings Bank, Harrisburg, Illinois
Merger 73

Indiana

January 1, 1993:
American National Bank and Trust Company of Muncie, Muncie, Indiana, and
Muncie Federal Savings Bank, Muncie, Indiana
Merger 73

New Jersey

January 29, 1993:
Valley National Bank, Passaic, New Jersey, and
Mayflower Savings Bank, Savings and Loan Association, Livingston, New Jersey
Merger 73

North Carolina

January 29, 1993:
Southern National Bank of North Carolina, Lumberton, North Carolina, and
First Federal Savings Bank, Winston-Salem, North Carolina
Merger 73

South Carolina

February 19, 1993:
First Union National Bank of South Carolina, Greenville, South Carolina, and
South Carolina Federal Savings Bank, Columbia, South Carolina
Merger 73

South Dakota

January 31, 1993:
First National Bank in Brookings, Brookings, South Dakota, and
Home Trust Savings and Loan Association, Vermillion, South Dakota
Merger 73

A number of transactions in this section do not have accompanying decisions. In those cases the OCC reviewed the competitive effects of the proposals by using its standard procedures for determining whether the transaction has minimal or no adverse competitive effects. The OCC found the proposals satisfied its criteria for transactions that clearly had no or minimal adverse competitive effects. In addition, the Attorney General either filed no report on the proposed transaction or found that the proposal would not have a significantly adverse effect on competition.

* * *

ORANGE NATIONAL BANK,
Orange, California, and First American Capital Bank, National Association, Laguna Beach, California

Names of institutions and type of transaction	*Total assets*
Orange National Bank, Orange, California (16811), with	$174,665,000
and First American Capital Bank, National Association, Laguna Beach, California (17118), with	—
merged March 4, 1993, under charter and title of the former. The merged bank at date of merger had	—

* * *

VAIL NATIONAL BANK,
Vail, Colorado, and Cherry Creek National Bank-17th Street, Denver, Colorado

Names of institutions and type of transaction	*Total assets*
Vail National Bank, Vail, Colorado (16990), with	$45,268,000
and Cherry Creek National Bank-17th Street, Denver, Colorado (15449), with	23,569,000
merged January 1, 1993, under charter and title of the former. The merged bank at date of merger had	68,837,000

* * *

FIRST NATIONAL BANK OF BRIGHTON,
Brighton, Colorado, and Valley Bank of Frederick, Frederick, Colorado

Names of institutions and type of transaction	*Total assets*
First National Bank of Brighton, Brighton, Colorado (18384), with	$13,296,000
and Valley Bank of Frederick, Frederick, Colorado, with	9,680,000
merged February 8, 1993, under charter 18384 and title "Valley Bank, National Association." The merged bank at date of merger had	22,976,000

* * *

SUN BANK/SOUTH FLORIDA, NATIONAL ASSOCIATION,
Fort Lauderdale, Florida, and Flagler National Bank, West Palm Beach, Florida

Names of institutions and type of transaction	*Total assets*
Sun Bank/South Florida, National Association, Fort Lauderdale, Florida (14732), with	$2,376,981,000
and Flagler National Bank, West Palm Beach, Florida (16409), with	448,758,000
merged March 15, 1993, under charter and title of the former. The merged bank at date of merger had	2,806,056,000

* * *

BANK ONE, INDIANAPOLIS, NATIONAL ASSOCIATION,
Indianapolis, Indiana, and Bank One, Plainfield, National Association, Plainfield, Indiana

Names of institutions and type of transaction	*Total assets*
Bank One, Indianapolis, National Association, Indianapolis, Indiana (13759), with	$4,457,476,000
and Bank One, Plainfield, National Association, Plainfield, Indiana (7011), with	159,203,000
merged January 1, 1993, under charter and title of the former. The merged bank at date of merger had	4,616,679,000

* * *

Real mergers include the merger, consolidation, or purchase and assumption of operating banks or savings and loan associations or branches of operating banks or savings and loan associations where the resultant bank is a national bank

MERCHANTS NATIONAL BANK & TRUST COMPANY OF INDIANAPOLIS,
Indianapolis, Indiana, and Anderson Banking Company, Anderson, Indiana, and Elston Bank & Trust Company, Crawfordsville, Indiana, and The National Bank of Greenwood, Greenwood, Indiana

Names of institutions and type of transaction	*Total assets*
Merchants National Bank & Trust Company of Indianapolis, Indianapolis, Indiana (869), with	$3,107,414,000
and Anderson Banking Company, Anderson, Indiana, with	384,962,000
and Elston Bank & Trust Company, Crawfordsville, Indiana, with	130,376,000
and The National Bank of Greenwood, Greenwood, Indiana (14292), with	174,442,000
merged January 30, 1993, under charter 869 and title "National City Bank, Indiana." The merged bank at date of merger had	3,728,147,000

* * *

NBD BANK, NATIONAL ASSOCIATION,
Gary, Indiana, and Summit Bank of Clinton County, Frankfort, Indiana, and Summit Bank of Indianapolis, Indianapolis, Indiana

Names of institutions and type of transaction	*Total assets*
NBD Bank, National Association, Gary, Indiana (14468), with	$1,567,175,000
and Summit Bank of Clinton County, Frankford, Indiana, with	125,449,000
and Summit Bank of Indianapolis, Indianapolis, Indiana, with	276,145,000
merged February 19, 1993, under charter 14468 and title "NBD Bank, National Association." The merged bank at date of merger had	1,968,769,000

* * *

NATIONAL CITY BANK, INDIANA,
Indianapolis, Indiana, and Hancock Bank & Trust, Greenfield, Indiana, and Mid State Bank, Zionsville, Indiana, and Mid State Bank of Hendricks County, Danville, Indiana, and Union State Bank, Carmel, Indiana

Names of institutions and type of transaction	*Total assets*
National City Bank, Indiana, Indianapolis, Indiana (869), with	$3,728,147,000
and Hancock Bank & Trust, Greenfield, Indiana, with	93,400,000
and Mid State Bank, Zionsville, Indiana, with	109,111,000
and Mid State Bank of Hendricks County, Danville, Indiana, with	125,316,000
and Union State Bank, Carmel, Indiana, with	196,998,000
merged February 27, 1993, under charter 869 and title "National City Bank, Indiana." The merged bank at date of merger had	4,198,086,000

* * *

STAR BANK, NATIONAL ASSOCIATION, EASTERN INDIANA,
Richmond, Indiana, and Star Bank, National Association, Southeastern Indiana, Lawrenceburg, Indiana

Names of institutions and type of transaction	*Total assets*
Star Bank, National Association, Eastern Indiana, Richmond, Indiana (1988), with	$339,264,000
and Star Bank, National Association, Southeastern Indiana, Lawrenceburg, Indiana (2612), with	109,126,000
merged March 13, 1993, under charter 1988 and title "Star Bank, National Association, Indiana." The merged bank at date of merger had	448,390,000

* * *

NBD BANK, NATIONAL ASSOCIATION,
Gary, Indiana, and Summit Bank of Marion, Marion, Indiana, and Summit Bank of Muncie, Muncie, Indiana

Names of institutions and type of transaction	*Total assets*
NBD Bank, National Association, Gary, Indiana (14468), with	$1,968,769,000
and Summit Bank of Marion, Marion, Indiana, with	180,061,000
and Summit Bank of Muncie, Muncie, Indiana, with	178,501,000
merged March 19, 1993, under charter 14468 and title "NBD Bank, National Association." The merged bank at date of merger had	2,327,331,000

* * *

THE FIRST NATIONAL BANK OF PHILLIPSBURG,
Pillipsburg, Kansas, and The First National Bank of Logan, Logan, Kansas

Names of institutions and type of transaction	Total assets
The First National Bank of Phillipsburg, Phillipsburg, Kansas (3601), with	$93,529,000
and The First National Bank of Logan, Logan, Kansas (6841), with	4,589,000
merged January 9, 1993, under charter and title of the former. The merged bank at date of merger had	97,560,000

* * *

THE FARMERS NATIONAL BANK OF STAFFORD,
Stafford, Kansas, and The Buhler State Bank, Buhler, Kansas

Names of institutions and type of transaction	Total assets
The Farmers National Bank of Stafford, Stafford, Kansas (8883), with	$18,638,000
and The Buhler State Bank, Buhler, Kansas, with	12,365,000
merged January 29, 1993, under charter and title of the former. The merged bank at date of merger had	31,242,000

* * *

BANK IV KANSAS, NATIONAL ASSOCIATION,
Wichita, Kansas, and The Southgate Bank, Prairie Village, Kansas

Names of institutions and type of transaction	Total assets
Bank IV Kansas, National Association, Wichita, Kansas (12490), with	$4,163,975,000
and The Southgate Bank, Prairie Village, Kansas with	69,351,000
merged February 12, 1993, under charter and title of the former. The merged bank at date of merger had	4,566,045,000

* * *

FIRST NATIONAL BANK OF LOUISVILLE,
Louisville, Kentucky, and First Kentucky Trust Company, Louisville, Kentucky

Names of institutions and type of transaction	Total assets
First National Bank of Louisville, Louisville, Kentucky (109), with	$5,129,806,000
and First Kentucky Trust Company, Louisville, Kentucky, with	187,017,000
merged March 29, 1993, under charter 109 and title "National City Bank, Kentucky." The merged bank at date of merger had	5,147,654,000

* * *

THE FIRST AMERICAN NATIONAL BANK OF CROOKSTON,
Crookston, Minnesota, and First American Bank of Warren, Warren, Minnesota

Names of institutions and type of transaction	Total assets
The First American National Bank of Crookston, Crookston, Minnesota (2567), with	$147,608,000
and First American Bank of Warren, Warren, Minnesota, with	41,002,000
merged January 1, 1993, under charter 2567 and title "First American National Bank." The merged bank at date of merger had	188,610,000

* * *

NORWEST BANK MINNESOTA MESABI, NATIONAL ASSOCIATION,
Virginia, Minnesota, and Merchants & Miners State Bank of Hibbing, Hibbing, Minnesota

Names of institutions and type of transaction	Total assets
Norwest Bank Minnesota Mesabi, National Association, Virginia, Minnesota (14536), with	$184,919,000
and Merchants & Miners State Bank of Hibbing, Hibbinng, Minnesota, with	59,704,000
merged March 12, 1993, under charter and title of the former. The merged bank at date of merger had	247,041,000

* * *

MERCANTILE BANK OF TRENTON, NATIONAL ASSOCIATION,
Trenton, Missouri, and American Bank of North Central Missouri, Trenton, Missouri

Names of institutions and type of transaction	Total assets
Mercantile Bank of Trenton, National Association, Trenton, Missouri (4933), with	$70,356,000
and American Bank of North Central Missouri, Trenton, Missouri, with	21,699,000
merged February 18, 1993, under charter and title of the former. The merged bank at date of merger had	92,055,000

* * *

THE FIRST NATIONAL BANK OF GLASGOW,
Glasgow, Montana, and The First National Bank of Hinsdale, Hinsdale, Montana

Names of institutions and type of transaction	*Total assets*
The First National Bank of Glasgow, Glasgow, Montana (7990), with	$65,029,000
and The First National Bank of Hinsdale, Hinsdale, Montana (10910), with	7,409,000
merged January 1, 1993, under charter and title of the former. The merged bank at date of merger had	72,438,000

* * *

FIRSTIER BANK, NATIONAL ASSOCIATION,
Omaha, Nebraska, and Tri-County Bank & Trust, Bellevue, Nebraska

Names of institutions and type of transaction	*Total assets*
FirsTier Bank, National Association, Omaha, Nebraska (1633), with	$1,317,265,000
and Tri-County Bank & Trust, Bellevue, Nebraska with	11,420,000
merged January 14, 1993, under charter and title of the former. The merged bank at date of merger had	1,327,805,000

* * *

THE FIRST NATIONAL BANK IN OGALLALA,
Ogallala, Nebraska, and United Nebraska Bank, Grant, Grant, Nebraska

Names of institutions and tyoe of transaction	*Total assets*
The First National Bank in Ogallala, Ogallala, Nebraska (14374), with	$65,244,000
and United Nebraska Bank, Grant, Grant, Nebraska, with	46,114,000
merged January 19, 1993, under charter and title of the former. The merged bank at date of merger had	110,934,000

* * *

COMPTROLLER'S DECISION

On October 5, 1992, application was made to the Office of the Comptroller of the Currency (OCC) for prior authorization for First National Bank in Ogallala, Ogallala, Nebraska (First National) to purchase certain assets and assume certain deposit liabilities of United Nebraska Bank, Grant, Grant, Nebraska (United Nebraska). The application is based on an agreement entered into by the proponents on September 9, 1992.

As of June 30, 1992, First National held total deposits of $59 million. As of the same date, United Nebraska held total deposits of $42 million. First National is controlled by First Ogallala Investment, Inc. United Nebraska is wholly owned by United Nebraska Financial Company.

The relevant geographic market for this proposal is the area including and immediately surrounding the communities of Grant and Ogallala, the area where both banks compete and derive the bulk of their deposits. Seven commercial banks and two savings and loan associations compete within the market for total deposits of approximately $200 million. First National is the largest depository in the market with a share of 29 percent. United Nebraska is ranked third in the market with a share of 23 percent. Consummation of this transaction will result in First National's share of local deposits increasing to 52 percent. While some competition will be eliminated, consummation of the transaction should not have a significantly adverse effect on competition in the relevant market in light of the number of other banking alternatives remaining.

The Bank Merger Act requires the OCC to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the communities to be served." We find that the financial and managerial resources of both banks do not raise concerns that would cause the application to be denied. The future prospects for the resulting bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the record of this application and other information available to the OCC as a result of its regulatory responsibilities revealed no evidence that the applicants' record of helping to meet the credit needs of their communities, including low- and moderate-income neighborhoods, is less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act (12 U.S.C. 1828c)) and find that it will not significantly lessen competition in the relevant market.

Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

December 16, 1992

SUMMARY OF REPORT BY ATTORNEY GENERAL

This is in response to your letters. . . requesting reports pursuant to Section 18(c) of the Federal Deposit Insurance Act or 12 U.S.C. 1467a(e)(2) on the competitive factors involved in the listed proposed merger transactions. We have reviewed these proposed transactions and conclude that none would have a significantly adverse effect on competition.

Applicant	Target or Seller
First National Bank in Ogallala, Ogallala, Nebraska	United Nebraska Bank, Grant, Grant, Nebraska

THE FIRST NATIONAL BANK OF WISNER,
Wisner, Nebraska, and The Farmers National Bank of Madison, Madison, Nebraska

Names of institutions and type of transaction	*Total assets*
The First National Bank of Wisner, Wisner, Nebraska (4029), with	$26,191,000
and The Farmers National Bank of Madison, Madison, Nebraska (8317), with	11,845,000
merged February 1, 1993, under charter 4029 and title "First National Bank." The merged bank at date of merger had	37,190,000

* * *

FIRSTIER BANK, NATIONAL ASSOCIATION,
Lincoln, Nebraska, and Lincoln State Bank, Lincoln, Nebraska

Names of institutions and type of transaction	*Total assets*
FirsTier Bank, National Association, Lincoln, Nebraska (1798), with	$1,016,885,000
and Lincoln State Bank, Lincoln, Nebraska, with	20,490,000
merged March 27, 1993, under charter and title of the former. The merged bank at date of merger had	1,035,708,000

* * *

FIRST FIDELITY BANK, NATIONAL ASSOCIATION, NEW JERSEY,
Newark, New Jersey, and First Fidelity Bank, National Association, South Jersey, Burlington Township, New Jersey

Names of institutions and type of transaction	*Total assets*
First Fidelity Bank, National Association, New Jersey, Newark, New Jersey (1452), with	$13,738,512,000
and First Fidelity Bank, National Association, South Jersey, Burlington Township, New Jersey (1222), with	2,217,905,00
merged March 18, 1993, under charter and title of the former. The merged bank at date of merger had	15,969,429,000

* * *

THE FIRST NATIONAL BANK OF SANTA ROSA,
Santa Rosa, New Mexico, and The First National Bank in Tucumcari, Tucumcari, New Mexico

Names of institutions and type of transaction	*Total assets*
The First National Bank of Santa Rosa, Santa Rosa, New Mexico (6081), with	$17,145,000
The First National Bank in Tucumcari, Tucumcari, New Mexico (14081), with	63,000,000
merged January 1, 1993, under charter 6081 and title "The First National Bank of Tucumcari." The merged bank at date of merger had	80,051,000

* * *

THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION),
New York, New York, and Chase Lincoln First Bank, National Association, Rochester, New York

Names of institutions and type of transaction	*Total assets*
The Chase Manhattan Bank (National Association), New York, New York (2370), with	$71,891,825,000
and Chase Lincoln First Bank, National Association, Rochester, New York (15627), with	4,974,890,000
merged January 1, 1993, under charter and title of the former. The merged bank at date of merger had	76,493,163,000

* * *

THE SECURITY NATIONAL BANK AND TRUST COMPANY,
Springfield, Ohio, and The Farmers and Traders Bank, Jamestown, Ohio

Names of institutions and type of transaction	*Total assets*
The Security National Bank and Trust Company, Springfield, Ohio (6594), with	$459,347,000
and The Farmers and Traders Bank, Jamestown, Ohio, with	22,002,000
merged February 28, 1993, under charter and title of the former. The merged bank at date of merger had	478,754,000

* * *

LIBERTY BANK & TRUST COMPANY OF TULSA, NATIONAL ASSOCIATION,
Tulsa, Oklahoma, and First National Bank, Jenks, Jenks, Oklahoma

Names of institutions and type of transaction	*Total assets*
Liberty Bank & Trust Company of Tulsa, National Association, Tulsa, Oklahoma (5171), with	$900,037,000
and First National Bank, Jenks, Jenks, Oklahoma (16057), with	35,530,000
merged February 28, 1993, under charter and title of the former. The merged bank at date of merger had	935,567,000

* * *

PITTSBURGH NATIONAL BANK,
Pittsburgh Pennsylvania, and Provident National Bank, Bryn Mawr, Pennsylvania

Names of institutions and type of transaction	*Total assets*
Pittsburg National Bank, Pittsburgh, Pennsylvania (252), with	$19,656,538,000
and Provident National Bank, Bryn Mawr, Pennsylvania (15422), with	7,902,777,000
merged February 4, 1993, under charter and title of the former. The merged bank at date of merger had	27,481,315,000

* * *

CORPUS CHRISTI NATIONAL BANK,
Corpus Christi, Texas, and New First City, Texas-Aransas Pass, Aransas Pass, Texas

Names of institutions and type of transaction	*Total assets*
Corpus Christi National Bank, Corpus Christi, Texas (4423), with	$674,016,000
and New First City, Texas-Aransas Pass, Aransas Pass, Texas (22393), with	49,516,000
merged February 13, 1993, under charter and title of the former. The merged bank at date of merger had	719,500,000

* * *

TEXAS COMMERCE BANK-MIDLAND, NATIONAL ASSOCIATION,
Midland, Texas, and New First City, Texas-Midland, National Association, Midland, Texas

Names of institutions and type of transaction	*Total assets*
Texas Commerce Bank-Midland, National Association, Midland, Texas (18304), with	$168,537,000
and New First City, Texas-Midland, National Association, Midland, Texas (22452), with	303,483,000
merged February 13, 1993, under charter and title of the former. The merged bank at date of merger had	483,189,000

* * *

COMPTROLLER'S DECISION

An application has been made to the Office of the Comptroller of the Currency (OCC) by Texas Commerce Bank-Midland, National Association, Midland, Texas (TCB-Midland), to purchase certain assets and assume certain liabilities of New First City, Texas - Midland National Association, Midland, Texas (NFCM). The application rests on a purchase and assumption agreement negotiated between TCB-Midland and the Federal Deposit Insurance Corporation (FDIC) as the prospective receiver of NFCM. For the reasons set forth below, the application was approved on February 8, 1993. TCB Midland is authorized to consummate the purchase and assumption provided that the Comptroller of the Currency has received certification from the Board of Directors of the FDIC of its determination to dissolve NFCM pursuant to 12 U.S.C. 1821(n)(12) and that the Comptroller of the Currency has appointed the FDIC as receiver under that authority.

As of October 31, 1992, NFCM held total deposits of $283 million and operated only one office. As of December 31, 1992, TCB-Midland held deposits of $152 million and operated four offices. NFCM is a bridge bank chartered for the FDIC by the Comptroller of the Currency on October 30, 1992, to facilitate the closing of 20 subsidiary banks of First City, Texas. TCB-Midland is wholly owned by Texas

Commerce Bancshares, Inc., a second tier holding company controlled by Chemical Bancshares.

The relevant geographic market for this proposal is Midland County, where both banks compete and where NFCM derives the bulk of its deposits. Within this market, seven commercial banks and two thrifts compete for approximately $1.5 billion in deposits. TCB-Midland is the fourth largest depository with approximately 9 percent of the market's total deposits. NFCM ranks second with approximately 18 percent of the deposits. The resulting bank would replace NFCM as the second largest depository in the market with approximately 27 percent of the market's deposits. While the proposed transaction would eliminate some direct competition in the relevant geographic market, any adverse competitive effects would be mitigated by the presence of a number of other banking alternatives, including subsidiaries of three of the largest regional banking companies in the country.

The Bank Merger Act requires the OCC to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the communities to be served." We find that TCB-Midland has the financial and managerial resources to assume certain assets and liabilities of NFCM without undue risk to the resulting institution. The future prospects for the resulting bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the record of TCB-Midland and NFCM, and other information available to the OCC as a result of its regulatory responsibilities, revealed no evidence that the applicants' record of helping to meet the credit needs of their communities is less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act (12 USC 1828(c)) and find that it will not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

February 8, 1993

SUMMARY OF REPORT BY ATTORNEY GENERAL

Texas Commerce Bancshares, Inc., the bank holding company that controls Texas Commerce Bank-Beuamont, N.A., Texas Commerce Bank-El Paso, N.A., and Texas Commerce Bank-Midland, N.A., has committed to the Department of Justice (Department) to make such divestiture in those markets as is necessary to satisfy the Department's concerns regarding the lessening of competition in those markets. The obligation to make such divestiture, if any is determined by the Department to be appropriate, will be embodied in a consent judgment that the Department and Texas Commerce will move be entered in a United States District Court of competent jurisdiction. On the basis of and subject to those commitments, the Department concludes that the acquisition of New First City-Beaumont, New First City-El Paso, and New First City-Midland, by the respective Texas Commerce banks, will not have a significantly adverse effect upon competition.

The conclusions set forth in this letter are based upon the representations made in the applications and such other facts as are currently available to the Department. This letter is not intended, and should not be relied on as, a precedent or policy of the Department.

* * *

TEXAS COMMERCE BANK, NATIONAL ASSOCIATION,
Houston, Texas, and New First City-Texas, Houston, National Association, Houston, Texas

Names of institutions and type of transaction	*Total assets*
Texas Commerce Bank, National Association, Houston, Texas (10225), with	$10,078,105,000
and New First City-Texas, Houston, National Association, Houston, Texas (18819), with	4,304,094,000
merged February 13, 1993, under charter and title of the former. The merged bank at date of merger had	12,624,388,000

* * *

TEXAS COMMERCE BANK, NATIONAL ASSOCIATION,
Dallas, Texas, and New First City-Dallas, National Association, Dallas, Texas

Names of institutions and type of transaction	*Total assets*
Texas Commerce Bank, National Association, Dallas, Texas (15328), with	$3,017,763,000
and New First City-Dallas, National Association, Dallas, Texas (22391), with	1,254,910,000
merged February 13, 1993, under charter and title of the former. The merged bank at date of merger had	4,428,650,000

* * *

THE FROST NATIONAL BANK OF SAN ANTONIO,
San Antonio, Texas, and New First City Texas-Austin, National Association, Austin, Texas, and New First City-San Antonio, National Association, San Antonio, Texas

Names of institutions and type of transaction	*Total assets*
The Frost National Bank of San Antonio, San Antonio, Texas (5179), with	$2,473,413,000
and New First City Texas-Austin, National Association, Austin, Texas (22392), with	277,907,000
and New First City-San Antonio, National Association, San Antonio, Texas (22455), with	215,635,000
merged February 13, 1993, under charter 5179 and title "The Frost National Bank of San Antonio." The merged bank at date of merger had	2,987,668,000

* * *

FIRST NATIONAL BANK OF WEST TEXAS,
Lubbock, Texas, and New First City, Texas-San Angelo, National Association, San Angelo, Texas

Names of institutions and type of transaction	*Total assets*
First National Bank of West Texas, Lubbock, Texas (14208), with	$937,000,000
and New First City, Texas-San Angelo, National Association, San Angelo, Texas (22454), with	119,000,000
merged February 13, 1993, under charter and title of the former. The merged bank at date of merger had	1,056,000,000

* * *

FIRST NATIONAL BANK OF OLNEY,
Olney, Texas, and New First City, Texas-Graham, National Association, Graham, Texas

Names of institutions and type of transaction	*Total assets*
First National Bank of Olney, Olney, Texas (21478), with	$27,000,000
and New First City, Texas-Graham, National Association, Graham, Texas (22450), with	87,000,000
merged February 13, 1993, under charter and title of the former. The merged bank at date of merger had	114,000,000

* * *

LUFKIN NATIONAL BANK,
Lufkin, Texas, and New First City, Texas-Lufkin, National Association, Lufkin, Texas

Names of institutions and type of transaction	*Total assets*
Lufkin National Bank, Lufkin, Texas (22628), with	$9,750,000
and New First City, Texas-Lufkin, National Association, Lufkin, Texas (22451), with	145,803,000
merged February 13, 1993, under charter and title of the former. The merged bank at date of merger had	157,452,000

* * *

TYLER BANK AND TRUST, NATIONAL ASSOCIATION,
Tyler, Texas, and New First City, Texas-Tyler, National Association, Tyler, Texas

Names of institutions and type of transaction	*Total assets*
Tyler Bank and Trust, National Association, Tyler, Texas (22629), with	$15,400,000
and New First City, Texas-Tyler, National Association, Tyler, Texas (22596), with	242,762,000
merged February 13, 1993, under charter and title of the former. The merged bank at date of merger had	260,424,000

* * *

MERCANTILE BANK, NATIONAL ASSOCIATION,
Brownsville, Texas, and New First City, Texas-Corpus Christi, National Association, Corpus Christi, Texas

Names of institutions and type of transaction	*Total assets*
Mercantile Bank, National Association, Brownsville, Texas (12236), with	$411,000,000
and New First City, Texas-Corpus Christi, National Association, Corpus Christi, Texas (22448), with	365,000,000
merged February 14, 1993, under charter and title of the former. The merged bank at date of merger had	776,000,000

* * *

TEXAS COMMERCE BANK-BEAUMONT, NATIONAL ASSOCIATION, Beaumont, Texas, and New First City, Texas-Beaumont, National Association, Beaumont, Texas

Names of institutions and type of transaction	*Total assets*
Texas Commerce Bank-Beaumont, National Association, Beaumont, Texas (5825), with	$371,518,000
and New First City, Texas-Beaumont, National Association, Beaumont, Texas (22446), with	499,392,000
merged February 24, 1993, under charter and title of the former. The merged bank at date of merger had	897,667,000

* * *

COMPTROLLER'S DECISION

An application has been made to the Office of the Comptroller of the Currency (OCC) by Texas Commerce Bank-Beaumont, National Association, Beaumont, Texas (TCB-Beaumont), to purchase certain assets and assume certain liabilities of New First City, Texas-Beaumont, National Association, Beaumont, Texas (NFCB). The application rests on a purchase and assumption agreement negotiated between TCB-Beaumont and the Federal Deposit Insurance Corporation (FDIC) as the prospective receiver of NFCB. For the reasons set forth below, the application was approved on February 19, 1993. TCB-Beaumont is authorized to consummate the purchase and assumption provided that the Comptroller of the Currency has received certification from the Board of Directors of the FDIC of its determination to dissolve NFCB pursuant to 12 U.S.C. 1821(n)(12) and that the Comptroller of the Currency has appointed the FDIC as receiver under that authority.

As of October 31, 1992, NFCB held total deposits of $459 million and operated six offices. As of December 31, 1992, TCB-Beaumont held deposits of $334 million and operated two offices. NFCB is one of 20 bridge banks chartered for the FDIC by the Comptroller of the Currency on October 30, 1992, to facilitate the closing of 20 subsidiary banks of First City, Texas. TCB-Beaumont is wholly owned by Texas Commerce Bancshares, Inc., a second tier holding company controlled by Chemical Bancshares.

The relevant geographic market for this proposal is the area including and immediately surrounding Beaumont. This is the area where NFCB, the target bank, operates five of its six offices and derives the bulk of its deposits. There are 11 commercial banks and three savings and loan associations competing in the relevant market for total market deposits of approximately $3.2 billion. TCB-Beaumont ranks third in market deposits with a share of 10 percent. NFCB ranks second in market deposits with a share of 13 percent. Consummation of this transaction would result in TCB-Beaumont becoming the largest competitor in the relevant market with a share of 23 percent. Although one competitor would be eliminated from the Beaumont market, consummation of the transaction would not have a significantly adverse effect on competition in light of the number of competitors remaining in the relevant market, including several commercial banks affiliated with some of the largest financial institutions in the U.S.

The primary service area for NFCB's remaining office is the area including and immediately surrounding Liberty. TCB-Beaumont does not compete in the Liberty banking market. Since one competitor would simply replace another in the Liberty market, consummation of this transaction would not have an adverse effect on competition.

By letter dated February 8, 1993, the Department of Justice (Department) indicated concerns regarding a lessening of competition in the Beaumont market.* The Department provided no analysis or data to support its concerns because TCB had at the threshold committed to the Department to "make such divestiture in [that market] as is necessary to satisfy the Department's concerns regarding the lessening of competition . . . ." In light of that commitment, the Department said that the proposed acquisition would not have adverse effects on competition in the Beaumont market. As of the date of this decision, we do not know what, if any, divestitures in Beaumont have been agreed to by TCB. Nevertheless, under our analysis, we can approve the transaction as proposed because, as previously discussed, we find that it would not have a significantly adverse effect upon competition in the Beaumont market.

While the Department in its letter has not specified its concerns in Beaumont, given the nature of the markets, we expect that they are similar to those expressed with regard to the Midland market in a recently filed complaint challenging the proposed acquisition by Texas Commerce Bank-Midland, N.A. of New First City-Midland, N.A. *United States v. Texas Commerce Bancshares, Inc.*, No 3-93CV0294-G (D.N.D. Texas February 11, 1993). There the Department defined the relevant product line as services to small and medium-sized businesses. *Id.* As discussed in our previous decisions, the OCC believes that the appropriate product line to analyze bank mergers is the cluster of banking services and

**For a discussion of the Attorney General's analysis of this merger see the Texas Commerce Bank-Midland case on page 67 of this issue.*

products to a range of customers rather than retail and wholesale fragments. *See, e.g., Decision of the Comptroller of the Currency on the Application to Merge Commercial National Bank of Little Rock, Little Rock, Arkansas, in The First National Bank of Little Rock* (May 27, 1983). This is in accord with the approach of the other federal bank regulators. *See* e.g., *Society Corporation*, 78 F.R.B. 302 (1992); *First Hawaiian, Inc.*, 77 F.R.B. 521 (1991). Thus, OCC cannot agree with the Department's apparent analysis of the competitive impact of the proposed transaction in Beaumont.

The Bank Merger Act requires the OCC to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the communities to be served." We find that TCB-Beaumont has the financial and managerial resources to assume certain assets and liabilities of NFCB without undue risk to the resulting institution.

A review of the record of TCB-Beaumont and NFCB, and other information available to the OCC as a result of its regulatory responsibilities, revealed no evidence that the applicants' record of helping to meet the credit needs of their communities is less than satisfactory. TCB-Beaumont, the acquiring bank, has an outstanding CRA rating.

As part of the review made of the proposed acquisition, consideration has been given to the substantial number of comments that were received in opposition to the proposal during the period for public comment. In large part, these comments—received from individuals and organizations located in Beaumont—expressed opposition to the acquisition in the following ways: (1) preference that New First City continue operations as presently constituted; (2) general opposition, without explanation of the rationale underlying such opposition; (3) opposition because of the alleged monopolistic effect resulting from the acquisition; and (4) opposition based upon TCB's allegedly less-than-satisfactory minority lending and/or hiring practices. Other comments focused on more particular concerns that would occur in the aftermath of the acquisition, including an anticipated loss in the number of employment opportunities and increased office vacancies resulting in adverse effects on local government finances and City of Beaumont revitalization efforts. Finally, one commenter offered an analysis of TCB's Home Mortgage Disclosure Act (HMDA) lending data as evidence of TCB's "very poor record in its lending practices."

The OCC has carefully considered these comments. As previously explained, the OCC concludes that the acquisition will not have a significantly adverse effect on competition in the Beaumont market. The financial and managerial prospects of the resulting institution are favorable. The review of the record of performance of the institutions in meeting the credit needs of their local community revealed no evidence suggesting that record was less than satisfactory. While there may be some adverse effects on the Beaumont community, such as increased office vacancies or reduced employment opportunities, OCC's examinations and reviews of TCB indicate that the resulting bank will be a financially strong competitor that will serve the convenience and needs of the Beaumont community. Accordingly, the OCC concludes that, on balance, possible adverse effects of the acquisition on the Beaumont community are outweighed by the favorable prospects for the resulting institution, and TCB's ability to meet the convenience and needs of the communities in which it operates. Therefore, the public comments, either alone or cumulatively, do not provide a sufficient basis for concluding that approval should be denied to the proposed acquisition.

We have analyzed this proposal pursuant to the Bank Merger Act (12 USC 1828(c)) and find that it will not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

February 19, 1993

* * *

FIRST NATIONAL BANK IN CAMERON,
Cameron, Texas, and The Planters National Bank of Rosebud, Rosebud, Texas

Names of institutions and type of transaction	*Total assets*
First National Bank in Cameron, Cameron, Texas (13731), with	$89,300,000
and The Planters National Bank of Rosebud, Rosebud, Texas (8066), with	—
merged February 25, 1993, under charter and title of the former. The merged bank at date of merger had	—

* * *

NATIONSBANK OF TEXAS, NATIONAL ASSOCIATION,
Dallas, Texas, and Financial Resource Management Trust Company, Dallas, Texas

Names of institutions and type of transaction	*Total assets*
NationsBank of Texas, National Association, Dallas, Texas (21834), with	$32,862,510,000
and Financial Resource Management Trust Company, Dallas, Texas, with	3,000,000
merged February 26, 1993, under charter and title of the former. The merged bank at date of merger had	32,865,510,000

* * *

OVERTON BANK AND TRUST, NATIONAL ASSOCIATION,
Fort Worth, Texas, and First National Bank Mansfield, Mansfield, Texas

Names of institutions and type of transaction	*Total assets*
Overton Bank and Trust, National Association, Fort Worth, Texas (16716), with	$338,487,000
and First National Bank Mansfield, Mansfield, Texas (17201), with	44,505,000
merged March 15, 1993, under charter and title of the former. The merged bank at date of merger had	382,958,000

* * *

KILGORE FIRST NATIONAL BANK,
Kilgore, Texas, and United Bank, National Association, Lancaster, Texas

Names of institutions and type of transaction	*Total assets*
Kilgore First National Bank, Kilgore, Texas (12698), with	$104,350,000
and United Bank, National Association, Lancaster, Texas (11423), with	—
merged March 18, 1993, under charter and title of the former. The merged bank at date of merger had	—

* * *

TEXAS BANK, NATIONAL ASSOCIATION,
Lufkin, Texas, and First State Bank, Wells, Texas, and Bank of East Texas, Chester, Texas

Names of institutions and type of transaction	*Total assets*
Texas Bank, National Association, Lufkin, Texas (15187), with	$30,779,000
and First State Bank, Wells, Texas, with	11,723,000
and Bank of East Texas, Chester, Texas, with	8,414,000
merged March 23, 1993, under charter 15187 and title "Texas Bank, National Association." The merged bank at date of merger had	49,427,000

* * *

JEFFERSON NATIONAL BANK,
Charlottesville, Virginia, and People's Bank of Virginia, Virginia Beach, Virginia

Names of institutions and type of transaction	*Total assets*
Jefferson National Bank, Charlottesville, Virginia (6031), with	$1,742,018,000
and People's Bank of Virginia, Virginia Beach, Virginia, with	16,493,000
merged February 11, 1993, under charter and title of the former. The merged bank at date of merger had	1,759,007,000

* * *

UNITED NATIONAL BANK,
Parkersburg, West Virginia, and United National Bank-Central, Glenville, West Virginia, and United National Bank-North, Wheeling, West Virginia

Names of institutions and type of transaction	Total assets
United National Bank, Parkersburg, West Virginia (1427), with	$880,795,000
and United National Bank-Central, Glenville, West Virginia (13634), with	180,706,000
and United National Bank-North, Wheeling, West Virginia (14142), with	182,521,000
merged January 1, 1993, under charter 1427 and title "United National Bank." The merged bank at date of merger had	1,220,849,000

* * *

FIRST WEST VIRGINIA BANK, NATIONAL ASSOCIATION,
Wheeling, West Virginia, and Wellsburg Banking and Trust Company, Wellsburg, West Virginia

Names of institutions and type of transaction	Total assets
First West Virginia Bank, National Association, Wheeling, West Virginia (16248), with	$61,179,000
and Wellsburg Banking and Trust Company, Wellsburg, West Virginia, with	19,972,000
merged January 4, 1993, under charter and title of the former. The merged bank at date of merger had	80,734,000

* * *

KELLOGG-CITIZENS NATIONAL BANK OF GREEN BAY,
Green Bay, Wisconsin, and First National Bank of Sturgeon Bay, Sturgeon Bay, Wisconsin

Names of institutions and type of transaction	Total assets
Kellogg-Citizens National Bank of Green Bay, Green Bay, Wisconsin (2132), with	$774,241,000
and First National Bank of Sturgeon Bay, Sturgeon Bay, Wisconsin (15633), with	55,521,000
merged January 1, 1993, under charter 2132 and title "Associated Bank Green Bay, National Association." The merged bank at date of merger had	824,373,000

* * *

FIRSTAR BANK, LAKE GENEVA, NATIONAL ASSOCIATION,
Lake Geneva, Wisconsin, and Firstar Bank Elkhorn, Elkhorn, Wisconsin

Names of institutions and type of transaction	Total assets
Firstar Bank, Lake Geneva, National Association, Lake Geneva, Wisconsin (14873), with	$52,323,000
and Firstar Bank Elkhorn, Elkhorn, Wisconsin, with	55,535,000
merged February 12, 1993, under charter and title of the former. The merged bank at date of merger had	107,858,000

* * *

CLEAR LAKE NATIONAL BANK,
Clearlake, California, and HomeFed Bank, F.A., San Diego, California

Names of institutions and type of transaction	Total assets
Clear Lake National Bank, Clearlake, California (20254), with	$31,000,000
and HomeFed Bank, F.A., San Diego, California, with	11,828,000
merged February 19, 1993, under charter and title of the former. The merged bank at date of merger had	42,828,000

* * *

SOUTHTRUST BANK OF ATLANTA, NATIONAL ASSOCIATION,
Atlanta, Georgia, and Prime Bank, Federal Savings Bank, Decatur, Georgia

Names of institutions and type of transaction	Total assets
SouthTrust Bank of Atlanta, National Association, Atlanta, Georgia (22520), with	$1,855,839,000
and Prime Bank, Federal Savings Bank, Decatur, Georgia, with	665,124,000
merged February 17, 1993, under charter and title of the former. The merged bank at date of merger had	2,520,963,000

* * *

FIRST UNION NATIONAL BANK OF GEORGIA,
Atlanta, Georgia, and Decatur Federal Savings and Loan Association, Decatur, Georgia

Names of institutions and type of transaction	*Total assets*
First Union National Bank of Georgia, Atlanta, Georgia (21161), with	$4,140,211,000
and Decatur Federal Savings and Loan Association, Decatur, Georgia, with	2,582,831,000
merged March 1, 1993, under charter and title of the former. The merged bank at date of merger had	6,723,042,000

* * *

THE FIRST NATIONAL BANK OF HARRISBURG,
Harrisburg, Illinois, and Bank South, A Federal Savings Bank, Harrisburg, Illinois

Names of institutions and type of transaction	*Total assets*
The First National Bank of Harrisburg, Harrisburg, Illinois (4003), with	$127,565,000
and Bank South, A Federal Savings Bank, Harrisburg, Illinois, with	53,444,000
merged January 14, 1993, under charter and title of the former. The merged bank at date of merger had	181,009,000

* * *

AMERICAN NATIONAL BANK AND TRUST COMPANY OF MUNCIE,
Muncie, Indiana, and Muncie Federal Savings Bank, Muncie, Indiana

Names of institutions and type of transaction	*Total assets*
American National Bank and Trust Company of Muncie, Muncie, Indiana (14921), with	$211,059,000
and Muncie Federal Savings Bank, Muncie, Indiana, with	128,708,000
merged January 1, 1993, under charter and title of the former. The merged bank at date of merger had	338,496,000

* * *

VALLEY NATIONAL BANK,
Passaic, New Jersey, and Mayflower Savings Bank, Savings and Loan Association, Livingston, New Jersey

Names of institutions and type of transaction	*Total assets*
Valley National Bank, Passaic, New Jersey (15790), with	$2,760,485,000
and Mayflower Savings Bank, Savings and Loan Association, Livingston, New Jersey, with	135,988,000
merged January 29, 1993, under charter and title of the former. The merged bank at date of merger had	2,897,235,000

* * *

SOUTHERN NATIONAL BANK OF NORTH CAROLINA,
Lumberton, North Carolina, and First Federal Savings Bank, Winston-Salem, North Carolina

Names of institutions and type of transaction	*Total assets*
Southern National Bank of North Carolina, Lumberton, North Carolina (10610), with	$3,662,545,000
and First Federal Savings Bank, Winston-Salem, North Carolina, with	409,441,000
merged January 29, 1993, under charter and title of the former. The merged bank at date of merger had	4,071,986,000

* * *

FIRST UNION NATIONAL BANK OF SOUTH CAROLINA,
Greenville, South Carolina, and South Carolina Federal Savings Bank, Columbia, South Carolina

Names of institutions and type of transaction	*Total assets*
First Union National Bank of South Carolina, Greenville, South Carolina (21183), with	$1,434,319,000
and South Carolina Federal Savings Bank, Columbia, South Carolina, with	860,231,000
merged February 19, 1993, under charter and title of the former. The merged bank at date of merger had	2,290,289,000

* * *

FIRST NATIONAL BANK IN BROOKINGS,
Brookings, South Dakota, and Home Trust Savings and Loan Association, Vermillion, South Dakota

Names of institutions and type of transaction	*Total assets*
First National Bank in Brookings, Brookings, South Dakota (12838), with	$201,902,000
and Home Trust Savings and Loan Association, Vermillion, South Dakota, with	29,473,000
merged January 31, 1993, under charter and title of the former. The merged bank at date of merger had	229,345,000

* * *

Structure Tables

	Page
Changes in the structure of the national banking system, by state, January 1 to December 31, 1992	77
National banks converted to state banks, July 1 to December 31, 1992	78
National banks merged into state banks, July 1 to December 31, 1992	78

Changes in the structure of the national banking system, by state, January 1 to December 31, 1992

	In operation Dec., 31, 1991	Organized and opened for business	Merged	Voluntary liquidations	Payouts	12 USC 214		In operation Dec 31, 1992
						Converted to state banks	Merged with state banks	
Alabama	53	0	2	0	0	0	0	51
Alaska	4	0	0	0	0	0	0	4
Arizona	14	0	0	0	0	0	0	14
Arkansas	82	1	3	0	0	0	0	80
California	160	4	4	0	3	0	1	156
Colorado	216	1	29	0	0	3	0	185
Connecticut	16	0	0	1	0	0	1	14
Delaware	17	1	2	0	0	0	0	16
District of Columbia	23	1	3	0	0	0	0	21
Florida	158	3	9	1	0	2	3	146
Georgia	74	7	3	0	0	0	0	78
Hawaii	3	0	0	0	1	0	0	2
Idaho	7	0	1	0	0	2	0	4
Illinois	333	1	7	0	0	2	7	318
Indiana	85	0	5	0	0	0	0	80
Iowa	100	0	1	0	0	11	0	88
Kansas	149	0	5	0	0	1	0	143
Kentucky	86	4	5	0	0	0	0	85
Louisiana	45	0	1	0	0	1	1	42
Maine	6	1	0	0	0	0	0	7
Maryland	27	1	2	0	0	0	0	26
Massachusetts	25	1	0	0	0	0	1	25
Michigan	62	0	0	0	0	5	2	55
Minnesota	150	2	1	0	0	0	3	148
Mississippi	27	0	0	0	0	0	0	27
Missouri	85	0	1	1	0	1	3	79
Montana	38	1	0	0	0	5	1	33
Nebraska	109	0	1	1	0	0	0	107
Nevada	7	0	0	0	0	0	0	7
New Hampshire	12	0	1	0	0	0	1	10
New Jersey	48	0	1	1	0	0	2	44
New Mexico	38	0	0	0	0	1	0	37
New York	90	1	5	1	1	1	2	81
North Carolina	15	1	0	1	0	0	0	15
North Dakota	30	1	0	0	0	1	0	30
Ohio	126	2	6	0	0	0	0	122
Oklahoma	158	0	5	1	0	3	3	146
Oregon	8	0	0	0	0	1	0	7
Pennsylvania	150	0	3	0	0	0	1	146
Rhode Island	5	0	0	0	0	0	0	5
South Carolina	29	0	2	0	0	0	0	27
South Dakota	20	0	1	0	0	0	0	19
Tennessee	45	1	0	0	0	1	3	42
Texas	586	0	6	1	1	4	9	565
Utah	7	1	0	0	0	0	0	8
Vermont	12	0	2	0	0	0	0	10
Virginia	43	0	0	0	0	1	0	42
Washington	27	1	1	0	0	2	1	24
West Virginia	72	0	2	0	0	0	2	68
Wisconsin	97	0	2	0	0	0	0	95
Wyoming	29	0	0	0	0	2	0	27
Puerto Rico	1	1	0	0	0	0	1	1
United States	3,809	38	122	9	6	50	48	3,612

The column "organized and opened for business" includes all state banks converted to national banks, all newly formed national banks, and savings and loan associations converted to national banks The column entitled "merged" includes all mergers, consolidations and purchases and assumptions in which an operating national bank was acquired by another national bank Also included in this column are immediate FDIC-assisted "merger" transactions The column entitled "voluntary liquidations" includes only straight liquidations of national banks No liquidations pursuant to a purchase and assumption transaction are included in this total Liquidations resulting from purchases and assumptions are included in the "merged" columns The column entitled "payouts" includes all failed national banks where the FDIC is named receiver and no other depository institution is named as receiver The column entitled "merged with state banks" includes all mergers, consolidations and purchases and assumptions where the resulting institution is a state-chartered bank Also included in this column are immediate FDIC assisted "merger" transactions where the resulting institution is a state-chartered bank Nationally chartered bridge banks are not included on this table This table supercedes the table found on page 101 of volume 12, number 1 of the *Quarterly Journal*

*National banks converted to state banks, July 1 to December 31, 1992**

Title and location of bank	Effective date	Total assets
Florida		
SunBank/Sarasota County, National Association, Sarasota (20982)	December 31	$306,185,000

National banks merged into state banks, July 1 to December 31, 1992

Title and location of bank	Charter number	Effective date
Illinois		
NBD Bank Elgin, National Association, Elgin	1365	December 1
NBD Bank, Evanston, National Association, Evanston	15615	December 1
NBD Bank Lake Zurich, National Association, Lake Zurich	16594	December 1
NBD Bank Mount Prospect, National Association, Mount Prospect	15272	December 1
NBD Bank Highland Park, National Association, Highland Park	14390	December 1
Tennessee		
Jackson National Bank, Jackson	3576	December 31
First National Bank, Selmer	15590	December 31

**Notification of these transactions was not received until after publication of the last issue of the Quarterly Journal. Information on other transactions in which national banks converted to state banks from July 1 to December 31, 1992, may be found on page 127 of volume 12, number 1 of the Quarterly Journal. Information relating to national banks merged into state banks may be found on page 128 of that issue.*

Statistical Tables

	Page
Assets, liabilities, and capital accounts of national banks, March 31, 1992, and March 31, 1993	81
Income and expenses of foreign and domestic offices and subsidiaries of national banks, March 31, 1993	82
Loans of national banks, by state, March 31, 1993	83
Deposits of national banks, by state, March 31, 1993	84
Interest income of national banks, by state, March 31, 1993	85
Noninterest income of national banks, by state, March 31, 1993	86
Interest expense of national banks, by state, March 31, 1993	87
Noninterest and other expense of national banks, by state, March 31, 1993	88
Book value of securities at domestic offices of national banks, by state, March 31, 1993	89
Off-balance sheet items at national banks, by state, March 31, 1993	90
Outstanding balances, credit cards, and related plans of national banks, by state, March 31, 1993	91
Consolidated foreign and domestic loans and leases past due at national banks, by state, March 31, 1993	92
Percent of loans past due, by asset size of national banks	93

Tables provided by the Banking Research and Statistics Division

Assets, liabilities and capital accounts of national banks, March 31, 1992, and March 31, 1993
(Dollar amounts in millions)

	March 31, 1992	*March 31, 1993*	*Change March 31, 1992 – March 31, 1993 fully consolidated*	
	Consolidated foreign and domestic	*Consolidated foreign and domestic*	*Amount*	*Percent*
Assets				
Cash and balances due from depository institutions				
Noninterest-bearing balances and currency and coin	$116,551	$108,746	-$7,805	-6.70
Interest-bearing balances	57,530	51,298	-6,233	-10.83
Investment securities	372,484	418,556	46,071	12.37
Federal funds sold and securities purchased under agreements to resell	93,971	87,879	-6,091	-6.48
Loans and leases, net of unearned income	1,214,374	1,180,561	-33,813	2.78
Less allowance for loan and lease losses	34,422	32,874	-1,548	-4.50
Less allocated transfer risk reserve	121	135	14	11.66
Net loans and leases	1,179,831	1,147,552	-32,279	2.74
Premises and fixed assets	30,609	31,424	814	2.66
Other real estate owned	18,420	16,383	-2,037	11.06
All other assets	112,741	116,964	4,223	3.75
Total assets	1,982,137	1,978,801	-3,336	-0.17
Liabilities				
Deposits				
Noninterest-bearing deposits in domestic offices	279,269	285,278	6,009	2.15
Interest-bearing deposits in domestic offices	1,085,718	1,037,263	-48,454	-4.46
Total domestic deposits	1,364,987	1,322,542	-42,445	-3.11
Total foreign deposits	195,539	192,779	-2,759	-1.41
Total deposits	1,560,525	1,515,321	-45,204	-2.90
Federal funds purchased and securities sold under agreements to repurchase	147,340	157,154	9,814	6.66
Demand notes issued to the U.S. Treasury	8,945	9,029	85	0.95
Other borrowed money	61,408	64,746	3,338	5.44
Subordinated notes and debentures	15,420	21,818	6,398	41.49
All other liabilities	57,772	59,566	1,795	3.11
Total Liabilities	1,851,410	1,827,634	-23,775	-1.28
Limited-life preferred stock	6	1	-4	N/M*
Equity Capital				
Perpetual preferred stock	355	220	-136	-38.15
Common stock	16,304	16,644	340	2.09
Surplus	56,705	68,400	11,694	20.62
Net undivided profits and capital reserves	57,934	66,566	8,632	14.90
Cumulative foreign currency translation adjustments	-578	-664	-87	14.98
Total equity capital	130,722	151,166	20,444	15.64
Total liabilities, limited-life preferred stock, and equity capital	1,982,137	1,978,802	3,336	-0.17

*Not meaningful.
Note: Preliminary end-of-quarter data

Income and expenses of foreign and domestic offices and subsidiaries of national banks, March 31, 1993
(Dollar amounts in millions)

	Consolidated foreign and domestic	*Percent distribution*
Interest income		
Interest and fee income on loans	$25,964	72.4
Income from lease financing receivables	656	1.8
Interest income on balances due from depository institutions	1,045	2.9
Interest and dividend income on securities	6,649	18.6
Interest income from assets held in trading accounts	848	2.4
Interest income from federal funds sold and securities purchase agreements to resell	682	1.9
Total interest income	35,844	100.0
Interest expense		
Interest on deposits	11,961	75.2
Expense of federal funds purchased and securities sold under agreements to	1,205	
repurchase	2,398	7.6
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	22	15.1
Interest on mortgage indebtedness and obligations under capitalized leases	326	0.1
Interest on notes and debentures subordinated to deposits		2.0
Total interest expense	15,912	100.0
Net interest income	19,933	
Provision for loan and lease losses	2,768	
Provision for allocated transfer risk	4	
Noninterest income		
Service charges on deposit accounts	2,286	21.5
Other noninterest income	8,331	78.5
Total noninterest income	10,617	100.0
Gains and losses on securities not held in trading accounts	527	
Noninterest expense		
Salaries and employee benefits	8,087	38.4
Expenses of premises and fixed assets (net of rental income)	2,659	12.6
Other noninterest expense	10,332	49.0
Total noninterest expense	21,077	100.0
Income (loss) before income taxes and extraordinary items and other adjustments	7,227	
Applicable income taxes	1,806	
Income before extraordinary items and other adjustments	4,780	
Extraordinary items and other adjustments, net of taxes	1,534	
Net Income	6,314	
Total cash dividends declared*	1,858	
Recoveries credited to allowance for possible loan losses	912	
Losses charged to allowance for possible loan losses	3,374	
Net loan losses	2,462	

*Banks with assets of less than $100 million report this item only in their December Report of Income
Note: Preliminary year-to-date data

Loans of national banks, by state, March 31, 1993
(Dollar amounts in millions)

	Total loans, gross	Domestic offices					Total loans at foreign offices
		Loans secured by real estate	Loans to farmers	Commercial and industrial loans	Loans to individuals	Other loans	
All national banks	$1,184,484	$471,988	$13,781	$269,005	$205,040	$89,376	$135,295
Alabama	11,888	5,348	84	3,342	2,275	839	0
Alaska	1,624	781	0	519	207	113	5
Arizona	11,635	3,975	289	1,683	5,036	651	0
Arkansas	6,077	3,171	197	1,137	1,349	223	0
California	152,356	75,203	1,976	22,664	19,281	7,444	25,788
Colorado	10,067	3,954	362	1,839	3,372	541	0
Connecticut	12,187	7,089	5	3,340	800	953	0
Delaware	16,257	518	2	121	15,531	85	0
District of Columb	5,762	3,052	0	1,282	350	752	326
Florida	55,245	33,128	161	7,974	10,879	2,993	111
Georgia	30,710	12,343	98	8,929	7,020	2,195	126
Hawaii	226	142	0	72	9	2	0
Idaho	3,164	1,179	197	478	1,133	177	0
Illinois	58,727	19,918	724	21,305	6,760	6,435	3,585
Indiana	22,450	10,151	300	4,763	5,851	1,386	0
Iowa	7,666	3,360	598	1,619	1,757	332	0
Kansas	6,845	2,830	883	1,461	1,437	234	0
Kentucky	12,223	5,267	127	2,871	2,845	1,109	3
Louisiana	9,427	4,138	50	2,221	2,431	574	13
Maine	1,553	1,044	4	337	132	37	0
Maryland	16,975	8,637	13	2,932	3,687	1,387	318
Massachusetts	33,132	11,690	73	11,993	1,423	2,092	5,860
Michigan	28,693	12,533	115	8,392	4,713	1,986	953
Minnesota	25,603	11,561	631	6,785	3,016	3,480	130
Mississippi	5,277	2,468	82	1,107	1,161	459	0
Missouri	18,294	8,192	310	4,936	3,225	1,632	0
Montana	1,674	548	157	327	614	28	0
Nebraska	7,969	2,424	1,228	1,328	2,651	338	0
Nevada	4,806	1,059	9	248	3,456	34	0
New Hampshire	740	242	0	61	435	3	0
New Jersey	44,291	25,730	24	9,527	4,849	4,033	128
New Mexico	3,624	2,171	87	509	766	90	0
New York	191,957	41,439	222	29,440	12,227	13,447	95,181
North Carolina	38,282	15,533	172	13,116	3,454	5,145	861
North Dakota	1,853	746	222	443	392	49	0
Ohio	62,511	23,309	282	14,778	19,488	4,581	72
Oklahoma	7,653	3,370	585	1,885	1,518	296	0
Oregon	11,485	3,966	216	3,414	2,544	1,344	0
Pennsylvania	68,791	27,639	96	21,270	9,018	9,316	1,452
Rhode Island	7,587	3,006	0	2,912	456	1,196	17
South Carolina	12,665	7,566	41	2,097	1,985	977	0
South Dakota	8,651	880	396	1,845	5,005	525	0
Tennessee	19,043	8,112	113	5,275	4,080	1,462	0
Texas	63,480	23,998	1,547	20,491	12,250	4,898	295
Utah	5,365	2,219	112	1,154	1,407	472	0
Vermont	1,661	1,102	11	332	176	40	0
Virginia	14,348	6,793	76	3,730	2,820	929	0
Washington	19,891	8,081	587	5,342	4,967	862	52
West Virginia	6,159	3,448	9	995	1,509	198	0
Wisconsin	14,551	6,294	229	4,089	2,946	977	16
Wyoming	777	273	78	170	235	20	0
Puerto Rico	610	367	1	126	111	5	0

Note Preliminary end-of-quarter data Zeros indicate amounts of less than $500,000

Deposits of national banks, by state, March 31, 1993
(Dollar amounts in millions)

	Total demand deposits at domestic offices	All NOW accounts	Money market deposit accounts	Large time deposits	All other deposits at domestic offices	Total deposits at foreign offices	Total consolidated deposits
All National Banks	$276,803	$161,064	$271,653	$118,088	$494,934	$192,779	$1,515,321
Alabama	2,475	1,681	2,967	1,617	5,666	226	14,632
Alaska	764	230	399	322	877	0	2,591
Arizona	3,742	2,027	4,744	973	4,972	0	16,458
Arkansas	1,882	1,948	1,329	1,211	4,801	0	11,172
California	36,264	15,751	45,317	10,738	39,080	20,595	167,745
Colorado	4,795	3,087	4,039	920	5,085	41	17,968
Connecticut	3,945	2,028	2,902	1,042	6,858	268	17,042
Delaware	379	129	2,207	3,292	1,427	98	7,532
District of Columbia	2,250	1,641	2,615	1,052	2,038	880	10,475
Florida	15,414	12,058	16,254	6,961	28,664	179	79,529
Georgia	6,865	4,983	5,356	2,559	12,182	307	32,252
Hawaii	58	44	41	42	110	0	296
Idaho	571	487	631	234	1,589	0	3,512
Illinois	15,322	7,091	11,370	12,458	25,966	12,796	85,003
Indiana	4,972	3,819	4,607	1,900	12,272	48	27,618
Iowa	2,117	1,645	1,819	564	5,033	0	11,178
Kansas	1,809	1,959	2,037	852	5,359	0	12,016
Kentucky	2,951	2,516	1,879	1,226	6,875	249	15,696
Louisiana	4,051	2,586	3,064	2,176	7,077	92	19,046
Maine	196	231	210	132	1,055	0	1,823
Maryland	4,446	2,346	3,528	2,595	9,178	614	22,707
Massachusetts	6,688	2,945	7,283	2,837	9,292	6,036	35,082
Michigan	6,616	2,711	7,258	2,815	14,282	2,436	36,117
Minnesota	6,647	3,736	6,230	1,832	10,288	280	29,013
Mississippi	1,412	1,408	1,610	974	3,461	0	8,865
Missouri	5,599	3,935	5,496	1,322	10,281	125	26,759
Montana	466	467	540	136	1,063	0	2,672
Nebraska	1,871	1,723	1,287	1,084	5,505	0	11,470
Nevada	931	561	1,123	438	1,387	0	4,440
New Hampshire	69	99	94	272	272	0	807
New Jersey	12,305	7,609	8,139	3,378	31,073	48	62,551
New Mexico	992	1,110	1,005	599	2,679	0	6,385
New York	28,144	7,997	28,857	10,404	28,430	131,392	235,224
North Carolina	7,245	3,345	5,752	3,604	13,233	7,053	40,232
North Dakota	398	606	491	209	1,496	0	3,199
Ohio	11,797	8,015	10,459	4,183	32,752	2,267	69,474
Oklahoma	2,844	2,323	2,096	1,715	5,980	42	15,000
Oregon	2,775	2,149	3,002	417	4,557	0	12,899
Pennsylvania	16,229	7,793	16,968	5,512	37,394	4,704	88,600
Rhode Island	1,035	581	1,751	1,509	2,783	220	7,879
South Carolina	2,770	2,675	2,646	1,191	5,368	0	14,650
South Dakota	662	592	1,147	1,034	3,509	0	6,945
Tennessee	5,088	3,502	5,357	2,103	11,577	161	27,788
Texas	22,870	16,101	21,608	13,014	38,755	1,327	113,675
Utah	1,462	1,035	1,245	201	2,911	64	6,919
Vermont	222	271	383	95	989	0	1,960
Virginia	3,759	3,075	2,940	1,321	8,890	1	19,986
Washington	5,465	2,668	5,893	835	5,766	32	20,659
West Virginia	1,228	1,279	851	503	5,499	0	9,360
Wisconsin	3,588	2,013	2,531	971	8,441	198	17,741
Wyoming	286	341	290	164	641	0	1,722
Puerto Rico	71	114	9	548	215	0	956

Note: Preliminary end of quarter data. Zeros indicate amounts of less than $500,000

Interest income of national banks, by state, March 31, 1993
(Dollar amounts in millions)

	Interest and fees on loans	*Income from lease financing*	*Interest due from other depository institutions*	*Interest and dividends on securities*	*Interest from trading account assets*	*Interest from federal funds transactions*	*Total interest income*
All National Banks	$25,964	$656	$1,045	$6,649	$848	$682	$35,844
Alabama	235	2	1	89	0	4	330
Alaska	34	0	0	28	0	0	63
Arizona	289	7	0	82	0	6	385
Arkansas	124	0	1	76	0	4	204
California	3,029	86	52	367	76	34	3,644
Colorado	229	3	2	112	0	10	356
Connecticut	223	0	0	122	0	6	351
Delaware	570	1	0	22	0	2	595
District of Columbia	103	1	6	64	0	11	186
Florida	1,134	4	16	367	0	46	1,568
Georgia	618	11	1	133	1	13	778
Hawaii	5	0	0	1	0	0	6
Idaho	68	1	0	10	2	1	80
Illinois	1,087	9	122	343	51	74	1,686
Indiana	472	12	4	126	0	9	623
Iowa	162	0	0	89	0	3	255
Kansas	152	2	1	90	0	4	249
Kentucky	236	5	1	74	0	10	327
Louisiana	207	0	5	141	0	10	364
Maine	32	0	0	5	1	1	38
Maryland	356	3	0	137	1	13	511
Massachusetts	982	43	239	209	2	9	1,485
Michigan	554	4	13	182	2	10	765
Minnesota	480	13	2	135	2	17	649
Mississippi	108	0	1	69	0	5	183
Missouri	347	4	1	156	1	17	527
Montana	41	0	1	13	0	2	57
Nebraska	199	0	1	61	0	4	265
Nevada	168	0	0	22	0	2	192
New Hampshire	26	0	0	3	0	0	29
New Jersey	848	9	18	251	2	28	1,156
New Mexico	86	0	0	37	0	3	126
New York	5,485	248	457	639	661	79	7,570
North Carolina	665	19	25	188	22	32	951
North Dakota	41	0	1	17	0	3	62
Ohio	1,430	44	8	324	1	26	1,832
Oklahoma	163	0	2	108	0	6	279
Oregon	233	15	0	45	2	4	301
Pennsylvania	1,255	55	35	512	5	24	1,885
Rhode Island	128	21	0	29	0	5	182
South Carolina	255	1	0	80	0	10	346
South Dakota	198	0	0	16	0	4	219
Tennessee	376	3	2	167	5	9	562
Texas	1,200	7	19	616	3	92	1,937
Utah	108	5	2	30	5	2	153
Vermont	35	0	0	6	0	0	41
Virginia	294	2	2	67	0	14	379
Washington	421	7	0	26	1	2	457
West Virginia	135	0	0	66	0	3	205
Wisconsin	308	5	2	78	0	6	399
Wyoming	18	0	0	15	0	1	33
Puerto Rico	14	0	0	6	0	1	21

Note: Preliminary year-to-date data. Zeros indicate amounts of less than $500,000.

Noninterest income of national banks, by state, March 31, 1993
(Dollar amounts in millions)

	Service charges on deposit accounts	*Gains (losses) on foreign exchange transactions*	*Gains (losses) on fees from assets in trading accounts*	*Other noninterest income + extraordinary items*	*Gains (losses) on assets not in trading accounts*	*Total noninterest income and gains (losses) on assets not in trading accounts*
All National Banks	$2,286	$479	$648	$8,739	$527	$12,678
Alabama	23	1	4	49	1	78
Alaska	5	0	0	10	1	16
Arizona	38	1	1	61	0	101
Arkansas	15	0	2	31	2	50
California	356	49	124	850	22	1,400
Colorado	39	1	1	101	3	145
Connecticut	30	0	1	117	12	160
Delaware	1	0	0	465	0	467
District of Columbia	17	1	1	41	8	67
Florida	142	2	0	213	13	371
Georgia	78	1	1	138	13	231
Hawaii	0	0	0	1	0	1
Idaho	7	0	1	0	0	8
Illinois	112	16	150	398	22	698
Indiana	38	0	1	89	3	131
Iowa	13	0	0	49	4	67
Kansas	17	0	0	37	3	56
Kentucky	19	0	0	36	2	57
Louisiana	34	0	3	91	1	129
Maine	2	0	0	4	-0	6
Maryland	49	1	-0	83	34	167
Massachusetts	46	10	7	86	14	162
Michigan	49	3	2	100	9	164
Minnesota	45	3	6	186	21	261
Mississippi	13	0	1	20	0	34
Missouri	44	2	11	79	2	138
Montana	4	0	0	6	0	10
Nebraska	14	0	0	61	1	76
Nevada	7	0	0	249	0	257
New Hampshire	1	0	0	1	0	2
New Jersey	85	1	3	137	26	253
New Mexico	10	0	0	23	0	33
New York	142	360	259	2,163	43	2,967
North Carolina	73	5	9	209	10	306
North Dakota	3	0	0	11	0	14
Ohio	95	3	7	364	11	480
Oklahoma	26	0	2	62	3	94
Oregon	35	0	5	91	0	132
Pennsylvania	121	8	5	303	192	628
Rhode Island	6	0	0	53	0	59
South Carolina	29	0	1	60	3	93
South Dakota	4	-0	0	454	0	458
Tennessee	47	0	30	84	0	161
Texas	218	7	5	767	35	1,032
Utah	15	0	2	20	0	37
Vermont	2	0	0	4	0	6
Virginia	30	0	0	81	5	116
Washington	51	2	4	87	0	144
West Virginia	7	0	0	17	2	27
Wisconsin	26	1	1	93	1	122
Wyoming	2	0	0	3	0	6
Puerto Rico	1	0	0	0	0	1

Note: Preliminary year to date data. Zeros indicate amounts of less than $500,000

Interest expense of national banks, by state, March 31, 1993
(Dollar amounts in millions)

	Interest on deposits	Expenses of federal funds transactions	Interest on Treasury demand notes and other borrowed money	Interest on mortgage and capitalized leases	Interest on subordinated notes and debentures	Total interest expense
All National Banks	$11,961	$1,205	$2,398	$22	$326	$15,912
Alabama	111	15	3	0	0	130
Alaska	14	4	0	0	0	17
Arizona	98	3	26	0	1	129
Arkansas	76	2	0	0	0	78
California	969	42	115	3	63	1,192
Colorado	104	5	0	1	0	111
Connecticut	104	20	3	0	1	128
Delaware	70	35	59	0	8	172
District of Columbia	72	6	2	0	0	81
Florida	480	60	17	1	3	561
Georgia	245	48	7	0	6	306
Hawaii	2	0	0	0	0	2
Idaho	28	3	0	0	0	31
Illinois	634	70	72	0	31	806
Indiana	210	21	4	0	0	236
Iowa	85	9	7	0	0	103
Kansas	94	5	1	0	0	100
Kentucky	113	17	2	0	0	133
Louisiana	115	9	1	0	0	125
Maine	16	0	0	0	0	17
Maryland	158	24	34	1	2	219
Massachusetts	703	41	250	0	8	1,002
Michigan	276	27	20	1	5	329
Minnesota	178	37	15	1	4	234
Mississippi	66	8	1	0	0	74
Missouri	181	25	8	2	1	217
Montana	17	1	0	0	0	19
Nebraska	95	4	0	0	1	101
Nevada	33	5	9	0	0	47
New Hampshire	7	0	1	0	0	8
New Jersey	401	13	3	0	7	423
New Mexico	46	2	0	0	0	48
New York	2,956	155	1,552	4	117	4,784
North Carolina	267	144	19	1	13	444
North Dakota	27	0	0	0	0	28
Ohio	482	85	29	1	11	608
Oklahoma	107	3	2	0	0	112
Oregon	76	6	11	0	0	94
Pennsylvania	586	85	63	1	17	753
Rhode Island	70	5	5	0	1	81
South Carolina	99	32	2	0	1	134
South Dakota	77	9	6	0	1	93
Tennessee	195	23	4	0	2	224
Texas	664	47	30	1	12	754
Utah	46	8	2	0	1	57
Vermont	16	1	0	0	0	17
Virginia	147	8	1	0	0	156
Washington	120	8	8	1	5	141
West Virginia	77	5	1	0	0	83
Wisconsin	128	17	1	0	1	147
Wyoming	12	0	0	0	0	12
Puerto Rico	7	0	0	0	1	8

Note: Preliminary year-to-date data. Zeros indicate amounts of less than $500,000.

Noninterest and other expense of national banks, by state, March 31, 1993
(Dollar amounts in millions)

	Provision for loan and lease losses	Provision for allocated transfer risk	Salaries and employee benefits	Expenses of premises and fixed assets	Applicable income taxes	Other noninterest expense	Total noninterest and other expense
All National Banks	$2 768	$4	$8,087	$2,659	$1,806	$10,332	$25,655
Alabama	15	0	80	25	27	66	213
Alaska	1	0	19	6	8	9	43
Arizona	41	0	111	32	13	123	319
Arkansas	4	0	49	13	19	44	129
California	435	8	1,028	370	387	1,035	3,264
Colorado	7	0	105	33	30	139	315
Connecticut	20	0	96	32	16	166	330
Delaware	141	0	110	26	97	353	727
District of Columbia	17	0	46	17	5	94	179
Florida	87	0	302	124	128	489	1,130
Georgia	68	-4	159	50	59	244	574
Hawaii	0	0	2	1	0	1	4
Idaho	3	0	14	4	6	22	50
Illinois	111	0	406	122	109	424	1,173
Indiana	54	0	134	45	54	136	423
Iowa	11	0	53	17	24	59	164
Kansas	7	0	52	14	19	62	153
Kentucky	14	0	66	20	23	67	190
Louisiana	8	0	94	26	20	91	238
Maine	2	0	9	3	1	9	24
Maryland	55	0	135	40	26	123	380
Massachusetts	14	0	227	72	25	273	611
Michigan	54	0	187	53	22	207	521
Minnesota	35	0	149	48	81	204	517
Mississippi	6	0	41	11	13	37	108
Missouri	27	0	130	39	49	116	361
Montana	3	0	11	4	5	17	40
Nebraska	19	0	54	18	27	66	185
Nevada	79	0	26	10	44	149	308
New Hampshire	8	0	3	1	1	9	21
New Jersey	97	0	247	92	8	335	779
New Mexico	3	0	32	10	12	27	84
New York	750	0	1,464	505	-448	2,109	4,380
North Carolina	24	0	216	67	88	212	607
North Dakota	0	0	13	4	5	12	34
Ohio	174	0	341	95	176	539	1,326
Oklahoma	-0	0	74	19	20	71	184
Oregon	15	0	104	27	25	97	268
Pennsylvania	101	0	429	151	178	422	1,282
Rhode Island	19	0	55	12	12	41	139
South Carolina	11	0	68	23	32	97	231
South Dakota	102	0	49	12	50	309	522
Tennessee	27	0	145	38	34	157	400
Texas	27	0	547	196	147	595	1,512
Utah	3	0	33	8	13	49	106
Vermont	2	0	10	3	1	10	27
Virginia	34	0	95	34	4	140	308
Washington	18	0	121	42	50	131	362
West Virginia	6	0	41	11	17	35	110
Wisconsin	12	0	95	29	38	97	271
Wyoming	0	0	8	2	3	8	20
Puerto Rico	1	0	4	1	1	4	11

Note: Preliminary year-to-date data. Zeros indicate amounts of less than $500,000

Book value of securities at domestic offices of national banks, by state, March 31, 1993
(Dollar amounts in millions)

	U.S. Treasury securities	*U.S. government issued or guaranteed certificates of participation*	*Other U.S. government agency and corporation obligations*	*Securities issued by states and political subdivisions in the U.S.*	*Other domestic debt securities*	*Foreign debt securities*	*Equity securities*
All National Banks	$133,020	$94,619	$107,725	$31,221	$28,267	$979	$6,582
Alabama	528	1,257	2,301	857	306	14	51
Alaska	783	71	356	179	261	0	6
Arizona	2,079	291	2,525	61	506	1	41
Arkansas	1,723	437	1,893	629	209	1	68
California	3,050	8,930	5,999	799	595	16	541
Colorado	1,885	2,226	2,007	412	234	0	93
Connecticut	1,725	4,658	443	15	784	6	43
Delaware	716	100	196	9	392	0	34
District of Columbia	2,058	698	1,433	97	216	4	46
Florida	9,498	3,712	6,209	1,587	3,209	49	391
Georgia	3,329	1,516	2,184	738	463	3	115
Hawaii	13	2	30	2	0	0	1
Idaho	173	82	316	55	124	0	18
Illinois	6,427	2,915	6,224	3,062	2,115	23	433
Indiana	1,852	1,913	2,489	1,096	517	1	83
Iowa	1,082	1,388	1,432	636	324	0	53
Kansas	1,386	1,530	2,087	660	54	2	127
Kentucky	2,020	435	1,202	866	216	0	66
Louisiana	3,959	3,385	1,820	253	288	10	44
Maine	161	69	44	22	9	0	6
Maryland	2,975	1,056	3,320	589	198	4	183
Massachusetts	1,834	3,194	1,684	51	701	92	142
Michigan	2,168	4,460	2,443	1,447	520	4	112
Minnesota	2,043	3,083	1,138	750	1,124	5	182
Mississippi	1,284	520	1,870	469	217	1	26
Missouri	5,327	1,772	1,944	825	567	3	59
Montana	211	381	158	42	5	0	13
Nebraska	1,418	511	1,019	517	123	0	32
Nevada	714	223	472	45	183	0	8
New Hampshire	124	18	22	33	29	1	5
New Jersey	4,655	3,056	6,163	1,075	902	53	189
New Mexico	746	779	695	204	28	0	63
New York	7,315	6,933	2,959	1,416	1,384	486	1,293
North Carolina	10,502	1,814	442	1,288	309	28	57
North Dakota	226	474	273	71	18	0	12
Ohio	5,799	2,567	6,043	2,475	2,292	6	171
Oklahoma	2,729	1,262	2,320	533	189	1	97
Oregon	1,086	619	795	285	85	1	17
Pennsylvania	7,560	8,834	10,761	1,966	3,444	94	359
Rhode Island	512	1,227	41	12	52	2	45
South Carolina	2,292	994	1,099	290	65	2	89
South Dakota	159	447	59	95	35	0	59
Tennessee	3,060	1,328	5,395	889	282	3	81
Texas	17,588	10,469	10,495	1,179	3,419	50	362
Utah	500	192	975	210	211	0	223
Vermont	142	117	96	24	9	0	22
Virginia	2,098	597	729	395	281	1	66
Washington	406	376	354	197	124	0	115
West Virginia	1,110	496	1,651	540	67	0	75
Wisconsin	1,499	866	878	1,162	474	8	151
Wyoming	433	196	200	60	57	0	8
Puerto Rico	60	139	43	48	49	0	5

Note: Preliminary end-of-quarter data. Zeros indicate amounts of less than $500,000.

Selected off-balance sheet items at national banks, by state, March 31, 1993
(Dollar amounts in millions)

	Unused commitments	Letters of credit	Securities lent	Mortgages transferred to FNMA and FHLMC with recourse	Notional value of swap contracts	When-issued securities and futures and forward contracts	Written and purchased option contracts
All National Banks	$811,065	$126,029	$20,702	$7,538	$1,138,614	$2,827,850	$682,336
Alabama	4,711	762	69	8	1,805	415	1,205
Alaska	568	23	0	0	76	55	0
Arizona	27,036	230	0	23	801	1,376	24
Arkansas	1,205	69	0	110	0	157	45
California	93,646	18,077	4,399	132	216,804	536,969	84,741
Colorado	7,113	281	0	0	2,426	45	29
Connecticut	4,933	772	0	1	2,342	3,673	235
Delaware	117,948	6	0	0	8,869	0	0
District of Columbia	1,719	284	2	0	505	1,056	260
Florida	18,600	2,250	31	325	4,726	2,784	3,275
Georgia	21,184	2,384	27	81	7,671	815	1,739
Hawaii	63	2	0	0	0	0	0
Idaho	1,195	45	0	0	608	2,500	526
Illinois	51,784	10,476	66	13	152,848	322,799	138,880
Indiana	10,447	1,050	791	12	4,984	479	285
Iowa	7,249	242	550	0	84	9	0
Kansas	2,528	128	0	21	1	9	0
Kentucky	2,422	431	35	12	688	2	65
Louisiana	3,299	280	0	58	120	222	565
Maine	351	26	0	0	162	0	90
Maryland	12,026	1,101	180	34	3,801	1,326	2,616
Massachusetts	20,135	3,413	16	157	12,579	49,316	13,097
Michigan	11,662	1,816	0	190	4,552	2,927	467
Minnesota	10,688	2,738	419	56	3,380	5,129	1,958
Mississippi	1,381	109	251	0	5	1,066	0
Missouri	8,108	1,364	126	0	1,466	1,736	79
Montana	871	55	5	0	157	0	0
Nebraska	7,777	144	3	0	50	16	106
Nevada	1,094	54	0	0	3,831	3,562	17,002
New Hampshire	861	2	0	0	0	0	0
New Jersey	11,176	1,118	0	3	7,939	2,776	338
New Mexico	869	45	0	13	225	41	0
New York	96,593	48,307	1,345	5,361	565,117	1,813,082	370,316
North Carolina	22,637	4,298	1,825	47	22,064	28,282	14,183
North Dakota	481	17	1	0	47	1	0
Ohio	51,937	4,780	111	194	36,665	4,786	7,791
Oklahoma	2,198	278	0	37	21	117	6
Oregon	8,735	543	0	5	1,695	544	2,309
Pennsylvania	30,642	8,483	1,211	449	30,490	13,093	3,383
Rhode Island	4,071	350	0	0	3,768	122	199
South Carolina	2,787	227	77	6	212	104	15
South Dakota	56,630	40	0	0	2,875	3,055	9,621
Tennessee	7,516	1,090	665	38	836	2,677	712
Texas	30,316	4,139	8,090	88	15,628	6,553	3,864
Utah	2,424	243	0	0	448	1,744	1,127
Vermont	374	28	0	0	44	34	10
Virginia	6,150	1,066	34	3	1,393	966	159
Washington	14,515	1,548	11	0	8,242	11,261	427
West Virginia	972	91	247	0	199	1	0
Wisconsin	7,149	704	112	59	5,364	166	589
Wyoming	161	15	4	0	0	1	0
Puerto Rico	126	4	0	0	0	0	0

[illegible] forward, and option contracts include interest rate, foreign exchange, and commodities and equities contracts.
[illegible] of quarter data. Zeros indicate amounts of less than $500,000.

Outstanding balances, credit cards and related plans of national banks, by state, March 31, 1993
(Dollar amounts in thousands)

	Total number of national banks	Credit cards and other related credit plans	
		Number of national banks	Outstanding volume
All national banks	3,513	2,182	$74,057,310
Alabama	49	27	497,838
Alaska	4	3	50,654
Arizona	14	13	2,390,843
Arkansas	77	28	194,973
California	149	137	11,727,821
Colorado	175	153	1,436,588
Connecticut	12	9	135,258
Delaware	13	13	15,265,804
District of Columbia	19	17	145,066
Florida	143	79	1,750,388
Georgia	77	53	3,078,484
Hawaii	2	2	3,489
Idaho	6	6	123,745
Illinois	314	191	1,017,238
Indiana	71	64	1,121,503
Iowa	89	60	685,893
Kansas	143	47	321,836
Kentucky	83	45	174,518
Louisiana	42	21	458,185
Maine	7	6	36,110
Maryland	26	22	1,936,802
Massachusetts	24	17	311,992
Michigan	53	41	530,559
Minnesota	151	116	698,481
Mississippi	27	13	103,398
Missouri	79	55	566,186
Montana	34	24	274,936
Nebraska	105	49	1,508,905
Nevada	6	4	3,154,702
New Hampshire	6	4	407,634
New Jersey	45	39	695,721
New Mexico	33	18	159,664
New York	78	52	5,464,766
North Carolina	15	15	398,903
North Dakota	29	22	102,513
Ohio	125	98	5,905,037
Oklahoma	144	61	93,912
Oregon	7	7	1,398,672
Pennsylvania	142	93	785,097
Rhode Island	3	2	136,654
South Carolina	27	27	214,371
South Dakota	20	12	3,458,927
Tennessee	45	25	700,132
Texas	535	195	865,090
Utah	7	6	170,836
Vermont	10	7	56,806
Virginia	42	26	431,008
Washington	23	20	1,891,109
West Virginia	64	28	104,343
Wisconsin	91	86	882,619
Wyoming	27	23	14,438
Puerto Rico	1	1	16,863

Note Preliminary end-of-quarter data

Consolidated foreign and domestic loans and leases past due at national banks, March 31, 1993
(Dollar amounts in millions)

	Number of banks	Type of loan: All real estate	Commercial and industrial[1]	Personal[2]	Leases	Other loans[3]	Total loans	To non-U.S. addresses
All National Banks	3,513	$11,776.1	$4,901.6	$7,096.3	$218.3	$692.7	$24,685.1	$753.97
Alabama	49	60.0	29.0	56.5	0.7	4.3	150.6	0.00
Alaska	4	25.4	6.8	4.8	0.1	5.3	42.4	0.00
Arizona	14	78.3	14.3	141.6	1.0	10.7	246.0	0.25
Arkansas	77	53.3	30.6	21.1	0.1	1.4	106.6	0.00
California	149	2,251.4	610.7	820.5	5.2	67.3	3,755.1	134.47
Colorado	175	46.8	50.7	62.3	0.3	0.7	160.8	0.00
Connecticut	12	242.4	75.3	46.3	0.0	24.5	388.6	0.00
Delaware	13	8.8	4.4	531.2	1.4	0.0	545.8	0.00
District of Columbia	19	104.7	42.9	9.5	0.9	3.1	161.1	15.38
Florida	143	620.5	78.8	135.0	0.4	16.0	850.6	3.20
Georgia	77	148.7	95.0	156.2	5.5	12.6	418.1	0.00
Hawaii	2	0.6	1.7	0.5	0.0	0.0	2.7	0.00
Idaho	6	21.3	6.4	14.6	0.0	2.8	45.1	0.00
Illinois	314	555.4	317.1	146.4	0.6	17.6	1,037.0	4.21
Indiana	71	165.2	113.6	156.2	3.2	18.5	456.6	0.00
Iowa	89	38.1	40.3	49.6	0.0	5.8	133.9	0.00
Kansas	143	58.3	49.6	23.3	1.0	3.9	136.1	0.00
Kentucky	83	80.3	43.1	55.0	3.1	3.4	184.8	0.00
Louisiana	42	64.4	37.1	63.3	0.4	1.2	166.4	0.00
Maine	7	22.9	4.5	3.7	0.0	0.0	31.1	0.00
Maryland	26	191.4	37.3	125.4	1.3	2.6	357.9	4.32
Massachusetts	24	545.9	245.6	55.0	3.8	85.9	936.2	14.86
Michigan	53	189.4	71.0	78.0	5.0	6.2	349.5	0.06
Minnesota	151	158.9	122.4	70.1	8.7	10.4	370.5	0.00
Mississippi	27	39.2	20.3	19.4	0.1	4.1	83.0	0.00
Missouri	79	146.3	82.6	49.6	0.9	6.4	285.7	0.00
Montana	34	11.6	20.9	15.4	0.0	2.9	50.8	0.00
Nebraska	105	25.3	51.9	69.6	0.0	3.1	150.0	0.00
Nevada	6	15.6	4.2	204.5	0.0	0.1	224.4	0.00
New Hampshire	6	3.7	2.1	12.0	0.0	0.0	17.7	0.00
New Jersey	45	1,175.3	399.9	152.2	10.2	32.1	1,769.8	2.84
New Mexico	33	40.9	14.5	15.4	0.4	0.7	71.9	0.00
New York	78	1,714.0	707.0	1,252.7	52.0	196.5	3,922.1	557.59
North Carolina	15	180.3	97.2	42.8	0.6	3.0	323.8	0.31
North Dakota	29	13.0	15.6	9.4	0.1	4.8	42.9	0.00
Ohio	125	418.9	302.8	510.0	8.2	16.2	1,256.1	0.00
Oklahoma	144	52.2	37.8	25.0	0.0	5.0	120.0	0.01
Oregon	7	39.0	26.4	47.9	18.8	1.5	133.6	0.00
Pennsylvania	142	774.0	279.7	344.1	40.0	38.6	1,476.3	11.58
Rhode Island	3	110.7	43.2	18.7	31.9	0.4	205.0	0.00
South Carolina	27	144.6	21.8	33.0	0.7	1.4	201.6	0.00
South Dakota	20	11.3	39.7	790.6	0.1	14.1	855.8	0.00
Tennessee	45	114.2	48.7	93.0	4.7	6.6	267.3	0.00
Texas	535	463.9	250.5	250.1	1.4	19.5	985.4	4.58
Utah	7	29.1	18.8	14.2	0.6	2.3	64.9	0.00
Vermont	10	33.5	21.9	4.4	0.0	0.1	59.8	0.00
Virginia	42	137.0	42.3	60.0	0.6	5.0	244.9	0.00
Washington	23	175.8	104.9	131.6	1.9	20.6	434.8	0.33
West Virginia	64	54.7	22.6	39.8	0.0	0.2	117.2	0.00
Wisconsin	91	89.6	87.4	57.4	2.3	3.7	240.4	0.00
Wyoming	27	4.7	5.7	4.1	0.0	0.0	14.4	0.00
Puerto Rico	1	25.6	3.3	3.4	0.0	0.0	32.4	0.00

[1] For banks with assets of less than $300 million, this category captures commercial (time and demand) and all other loans.
[2] For banks with assets of less than $300 million, this category captures installment loans and credit cards and related plans.
[3] Does not include banks with assets of less than $300 million.

Percent of loans past due, by asset size of national banks[1]

	Less than $100M	$100M to $1B	$1B to $10B	Greater than $10B	All national banks
Real estate					
June 1992	2.05	1.84	2.74	2.86	2.59
September 1992	1.94	1.89	2.59	2.77	2.51
December 1992	1.94	1.80	2.38	2.91	2.50
March 1993	2.10	1.82	2.46	2.61	2.39
Commercial and industrial[2]					
June 1992	4.30	2.99	1.74	0.95	1.46
September 1992	3.89	3.00	1.83	0.94	1.45
December 1992	3.54	2.41	1.46	1.08	1.37
March 1993	4.26	2.82	1.68	1.09	1.48
Personal[3]					
June 1992	2.56	2.40	3.73	3.30	3.30
September 1992	2.60	2.40	3.87	3.24	3.33
December 1992	2.68	2.39	3.82	3.23	3.30
March 1993	2.42	2.29	3.62	3.15	3.16
Leases					
June 1992	2.78	1.30	1.74	0.98	1.25
September 1992	2.10	1.56	1.91	0.99	1.30
December 1992	2.01	1.27	1.95	1.00	1.29
March 1993	2.10	1.23	1.45	0.67	0.93
Other loans					
June 1992	N/M*	0.53	0.79	0.56	0.59
September 1992	N/M	0.47	0.88	0.93	0.84
December 1992	N/M	0.38	0.83	1.06	0.91
March 1993	N/M	0.46	0.76	0.67	0.64
Total loans					
June 1992	2.33	2.12	2.58	1.94	2.18
September 1992	2.19	2.14	2.60	1.96	2.18
December 1992	2.15	1.97	2.43	2.08	2.16
March 1993	2.33	2.04	2.46	1.90	2.09

[1]Past due loans in each category are stated as a percentage of loans outstanding of that type.
[2]For banks with assets of less than $300 million, this category captures commercial (time and demand) and all other loans.
[3]For banks with assets of less than $300 million, this category captures installment loans and credit cards and related plans.
Note: Preliminary end-of-quarter data.
*Not meaningful

Office of Government Services
1801 K Street, N W
Washington, DC 20006

Telephone 202 296 0800

Price Waterhouse

Report of Independent Accountants

To the Comptroller of the Currency

We have audited the accompanying Statements of Financial Position and the related Statements of Changes in Net Position, Cash Flows, and Budget and Actual Expenses as of and for the years ended December 31, 1992 and 1991. These financial statements are the responsibility of the management of the Office of the Comptroller of the Currency. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and, for 1992, Office of Management and Budget Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and notes thereto are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these statements, and the notes thereto. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of the Comptroller of the Currency at December 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

April 9, 1993

Office of Government Services
1801 K Street, N W
Washington, DC 20006
Telephone 202 296 0800

Price Waterhouse

Report of Independent Accountants on Internal Controls

To the Comptroller of the Currency

We have audited the financial statements of the Office of the Comptroller of the Currency (Comptroller's Office) as of and for the year ended December 31, 1992, and have issued our report thereon dated April 9, 1993.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and notes thereto are free of material misstatement.

In planning and performing our audit of the financial statements of the Comptroller's Office for the year ended December 31, 1992, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Management of the Comptroller's Office is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control policies and procedures into the following categories: assessments and revenues, cash receipts, receivables, investment securities, purchasing, cash disbursements, salaries and benefits, accounts payable and accrued expenses, fixed assets and leases, and financial statement preparation and reporting.

For all of the internal control structure categories listed above, we obtained an understanding of the design of significant internal control structure policies and procedures, determined whether they have been placed in operation, assessed control risk, and performed tests of the Comptroller's Office's internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

According to OMB Bulletin 93-06, the objective of the performance measure internal control structure is to provide management with reasonable, but not absolute, assurance that data supporting reported performance measures are properly recorded and accounted for to permit the preparation of reliable and complete performance measures. The Bulletin's audit requirements specify that the auditor obtain an understanding of the control structure and assess risk related to the management's assertions that the data is complete and relates to events that have occurred. Based on our understanding of the control structure, we found that the Comptroller's Office has established policies and procedures over the reporting of performance measures that reduce the aforementioned risk to a relatively low level. Furthermore, we noted no matters involving the performance measure internal control structure that we consider to be material weaknesses as defined in paragraph 7 of this report.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Comptroller's Office in a separate letter dated April 9, 1993.

This report is intended solely for the use of the Policy Group and management of the Comptroller's Office. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Price Waterhouse

April 9, 1993

Office of Government Services
1801 K Street, N W
Washington, DC 20006
Telephone 202 296 0800

Price Waterhouse

Report of Independent Accountants on Compliance

To the Comptroller of the Currency

We have audited the financial statements of the Office of the Comptroller of the Currency (Comptroller's Office) as of and for the year ended December 31, 1992, and have issued our report thereon dated April 9, 1993.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and notes thereto are free of material misstatement.

Compliance with laws and regulations applicable to the Comptroller's Office is the responsibility of the Comptroller's Office management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Comptroller's Office compliance with certain provisions of laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Comptroller's Office complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Fund had not complied, in all material respects, with those provisions.

This report is intended solely for the use of the Policy Group and the management of the Comptroller's Office. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Price Waterhouse

April 9, 1993

OFFICE OF THE COMPTROLLER OF THE CURRENCY
Statement of Financial Position

	As of December 31, 1992	As of December 31, 1991
ASSETS		
Fund balance with Treasury and Cash		
Fund balance with Treasury (Note 2)	$ 1,888,202	$ 10,621,782
Cash (Note 2)	250,070	233,345
Subtotal, Fund Balance with Treasury and Cash	2,138,272	10,855,127
Receivables, Non-Federal		
Accounts receivable	3,730,107	4,587,482
Travel advances	1,012,008	919,402
Prepayments and other advances	3,351,047	2,929,856
Subtotal, Receivables, Non-Federal	8,093,162	8,436,740
Receivables, Federal		
Accounts receivable	1,173,499	1,162,384
Advances and prepayments	1,648,304	1,161,789
Other	0	828,954
Subtotal, Receivables, Federal	2,821,803	3,153,127
Investments, Federal (Note 3)	101,869,457	73,099,110
Property, Plant and Equipment, Net (Note 4)	104,969,099	110,318,165
Total Assets	$ 219,891,793	$ 205,862,269
LIABILITIES AND COMPTROLLER'S EQUITY		
Funded Liabilities		
Non-Federal Liabilities		
Accounts payable	$ 11,181,950	$ 6,861,260
Accrued payroll and benefits	12,996,121	11,599,584
Deferred revenue	22,460	0
Capital lease liabilities	95,904,029	100,769,443
Subtotal, Non-Federal Liabilities	120,104,560	119,230,287
Federal Liabilities		
Accounts payable	50,018	138,289
Subtotal, Federal Liabilities	50,018	138,289
Total Funded Liabilities	120,154,578	119,368,576
Unfunded Liabilities		
Accrued annual leave	14,593,481	13,232,144
Total Unfunded Liabilities	14,593,481	13,232,144
Total Liabilities	134,748,059	132,600,720
Net Position	85,143,734	73,261,549
Total Liablities and Net Position	$ 219,891,793	$ 205,862,269

The accompanying notes are an integral part of these statements

OFFICE OF THE COMPTROLLER OF THE CURRENCY
Statement of Operations and Changes in Net Position

	Years ended December 31, 1992	1991
REVENUE AND FINANCING SOURCES		
Revenue from Goods Sold/Services Provided		
Semiannual assessments	$ 303,848,837	$ 264,062,759
Examination fees	5,921,861	4,999,313
Corporate fees	8,513,608	8,306,266
Investment Income	6,555,139	8,527,110
Other Income	3,467,604	1,695,377
Total Revenues from Financing Sources	328,307,049	287,590,825
EXPENSES		
Operating Expenses		
Personnel compensation and benefits (Note 6)	234,652,553	211,563,311
Rent, communications, and utilities (Note 5)	34,770,697	30,799,037
Travel and transportation	23,314,008	21,872,869
Office equipment and other (Note 4)	7,057,136	10,766,300
Contractual services	6,379,755	8,095,966
Supplies and materials	3,652,760	3,471,298
Repairs and maintenance	2,774,956	2,490,161
Depreciation and amortization (Note 4)	2,634,819	3,824,557
Printing and reproduction	1,188,180	1,252,637
Total Expenses	316,424,864	294,136,136
Excess/(Shortage) of Revenue and Financing Sources over Funded Expenses	11,882,185	(6,545,311)
Net Position, Beginning Balance	73,261,549	79,806,860
Net Position, Ending Balance	$ 85,143,734	$ 73,261,549

The accompaning notes are an integral part of these statements

OFFICE OF THE COMPTROLLER OF THE CURRENCY
Statement of Cash Flows

	Years Ended December 31, 1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess/(Shortage) of Revenue and Financing Sources over Total Expenses	$ 11,882,185	$ (6,545,311)
Adjustments affecting Cash Flow		
Decrease/(Increase) in non-federal receivables	343,578	(4,369,242)
Decrease/(Increase) in federal receivables	331,324	287,445
Increase/(Decrease) in non-federal liabilities	5,739,687	9,070,113
Increase/(Decrease) in federal liabilities	(88,271)	29,855
Increase/(Decrease) in unfunded liabilities	1,361,337	957,519
Depreciation and amortization	6,530,513	6,494,969
Net Cash Provided by Operating Activities	26,100,353	5,925,348
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of investment securities	362,308,346	276,775,118
Proceeds from sales of property, plant and equipment	0	24,420
Purchases of investment securities	(390,199,585)	(270,615,852)
Purchases of property, plant and equipment	(2,060,555)	(3,998,842)
Net Cash (Used)/Provided by Investing Activities	(29,951,794)	2,184,844
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(946,702)	(1,138,557)
Payoff of capital lease obligation	(3,918,712)	0
Net Cash Used by Financing Activities	(4,865,414)	(1,138,557)
Net Cash Provided by Operating, Investing, and Financing Activities	(8,716,855)	6,971,635
Fund Balances with Treasury and Cash, Beginning	10,855,127	3,883,492
Fund Balances with Treasury and Cash, Ending	$ 2,138,272	$ 10,855,127
Supplemental Non-Cash Investing and Financing Information:		
Capital lease obligations entered into	$ 44,954	$ 101,908,000

The accompaning notes are an integral part of these statements

OFFICE OF THE COMPTROLLER OF THE CURRENCY
Statement of Budget and Actual Expenses
For the Year Ended December 31, 1992

	BUDGET			ACTUAL
		Obligations		
Program Name	Assessment Resources	Direct	Reimbursed	Expenses
National Bank Supervision	$332,852,000	n/a	n/a	$316,424,864
Totals	$332,852,000	n/a	n/a	$316,424,864

The accompanying notes are an integral part of these statements

OFFICE OF THE COMPTROLLER OF THE CURRENCY
NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization

The Office of the Comptroller of the Currency (Comptroller's Office) was created by an Act of Congress for the purpose of establishing and regulating a national banking system. The National Currency Act of 1863, rewritten and reenacted as the National Banking Act of 1864, created the Comptroller's Office and provided for its supervisory functions and the chartering of banks.

No funds derived from taxes or federal appropriations are allocated to or used by the Comptroller's Office in any of its operations. The revenue of the Comptroller's Office is derived principally from assessments and fees paid by the national banks and income on investments in U.S. Government obligations. The Comptroller's Office is exempt from federal and state income taxes.

The Comptroller's Office is a bureau within the Department of Treasury. The Department of Treasury provides certain administrative services to the Comptroller's Office, which pays the Department of Treasury for services rendered pursuant to its interagency agreements. Periodically, payments are made in advance for anticipated services in accordance with instructions from the Department of Treasury. Administrative services provided by the Department of Treasury totaled $2,027,727 and $2,711,000 for the years ending December 31, 1992 and 1991, respectively.

Note 2 - Significant Accounting Policies

Basis of Accounting

The accounting policies of the Comptroller's Office conform to generally accepted accounting principles, and as required by the Chief Financial Officers Act of 1990. Accordingly, the financial statements are presented on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to cash receipt or payment.

Funds with the U.S. Treasury and Cash

Cash receipts and disbursements are processed by the U.S. Treasury. The funds with the U.S. Treasury are primarily trust funds that are available to pay current liabilities and finance authorized purchase commitments. The Comptroller's Office considers demand deposits and overnight certificate investments to be cash equivalents.

Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by the Comptroller's Office as the result of a transaction or event that has already occurred.

Liabilities are recorded in the accounts when incurred and are removed when liquidated (i.e. paid). Liabilities represent the amounts owing or accruing under contractual or other arrangements governing the transactions, including operating expenses incurred but not yet paid. Separate accounts for major categories of liabilities are maintained to facilitate clear and full disclosure of the liabilities. Payments are made promptly to take discounts offered by vendors when the discount terms are cost effective. Payments are also made in accordance with OMB Circular A-125 "Prompt Payment Act."

Annual, Sick and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. Sick leave and other types of manifested leave are expensed as taken.

Collateral

Various banks in the District of Columbia have deposited securities with the Comptroller's Office as collateral for those banks entering into and administering trust activities. These securities, having a par or stated value of $12,060,000 at December 31, 1992, are not assets of the Comptroller's Office and, accordingly, are not included in the accompanying financial statements.

Reclassifications

Certain 1991 information has been reclassified to conform with the 1992 guidance provided by the Office of Management and Budget in Bulletin 93-02 *"Form and Content of Agency Financial Statements"*, and Department of Treasury guidelines for preparing agency financial statements.

Note 3 - Investments

Investment securities reflect maturities through August 15, 1994 and are U.S. Treasury obligations stated at amortized cost which approximates market value. Premiums and discounts on investment securities are amortized over the term of the investment. The fair value of investment securities is estimated based on quoted market prices for those or similar investments. The cost and estimated fair value of investment securities as of December 31, 1992 is as follows:

Market Value	$102,954,616
Cost	$101,263,251
Amortized (Premium)/Discount	606,206
Investments, Net	$101,869,457

Note 4 - Property and Equipment

Property and equipment, including assets under capital leases, are stated at cost. Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are stated at cost less accumulated amortization computed over the terms of the related leases (including renewal options) or their estimated useful lives, whichever is shorter. Expenditures for individual assets costing less than $15,000 and for maintenance and repairs are charged to earnings as incurred.

The following table summarizes property and equipment balances as of December 31, 1992:

Classes of Fixed Assets	Service Life (years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Structures, facilities and leasehold improvements	11-20	$ 20,223,737	$ 7,522,215	$ 12,701,522
ADP software	6-10	1,933,517	1,753,860	179,657
Equipment	6-10	7,626,125	6,814,852	811,273
Equipment under capital lease	4	44,954	2,811	42,143
Building under capital lease	25	96,929,338	5,835,211	91,094,127
Other	6-10	702,394	562,020	140,374
Motor Vehicles		16,330	16,330	0
Total		$127,476,395	$22,507,299	$104,969,096

Note 5 - Leases

Office Space Leases

The Comptroller's Office occupied office space in Washington, D.C. through May 1991 under a lease agreement which provided for an initial five-year term with five consecutive five-year renewal options. In December 1988, the Comptroller's Office decided to not exercise the third renewal option and to relocate its Washington, D.C. office space in 1991. Effective with this relocation decision, the amortization period of the affected leasehold improvements was shortened to the estimated lease term, December 1988 through June 1991, resulting in additional expense of $3,300,000 over that period. The initial lease period for the new Washington, D.C. office space is for 15 years. The lease provides for two consecutive five-year renewal options which will provide for occupancy through the year 2016.

The district and field offices lease space under agreements which expire at various dates through 2003. Future lease payments under office space leases for the district and field offices, as well as the new Washington, D.C. office, which was capitalized upon occupancy, are shown in the following table:

Year	Washington, D.C. Capital Lease	District and Field Offices Operating Leases
1993	10,540,300	12,008,000
1994	10,571,800	10,723,000
1995	10,604,900	9,632,000
1996	10,639,700	8,145,000
1997	10,676,200	6,767,000
1998 and after	205,825,300	22,817,000
Total minimum lease payments	258,858,200	$70,093,000
Less: Amount representing interest	162,996,400	
Present value of net minimum lease payments	$ 95,861,800	

Certain of these leases provide that annual rentals may be adjusted to provide for increases in taxes and other related expenses. Total rental expense under district and field office operating leases was $13,072,907 and $15,544,000 for the years ended December 31, 1992 and 1991, respectively. It was not practicable to estimate the fair value of capital lease liabilities.

Other Leases

In connection with the relocation to the new office space in May 1991, the Comptroller's Office leased office furniture under two leases. The two leases were for 60 months, with payments commencing semi-annually (July and October). During 1992, the Comptroller's Office exercised the buyout option in the leases, thereby eliminating the liability associated with the leases.

Beginning in 1992, the Comptroller's Office also leased equipment under two four year capital lease arrangements. The annual lease payments from 1993 through 1995 are $14,592, and $10,944 in 1996. Interest and executory costs over the life of the leases total $12,491, and the present value of the net minimum lease payments is $42,229.

The Statement of Operations and Changes in Net Position caption "Rent, communications, and utilities" includes interest expense related to capital leases as follows:

	1992	1991
Washington, D.C. office space	$ 9,871,890	$4,890,262
Office furniture	331,718	366,256
Equipment	1,464	0
Total interest expense	$10,205,072	$5,256,518

Note 6 - Retirement and Benefit Plans and Accrued Annual Leave

Retirement Plans

The Comptroller's Office contributes to the Civil Service Retirement System and the Federal Employees' Retirement System administered by the Office of Personnel Management (OPM) for the benefit of U.S. Government employees. Contributions aggregated $16,513,000 and $14,342,000 in 1992 and 1991, respectively. The retirement plans are participatory. Under

the Civil Service Retirement System the employer and employee each contribute 7 percent of salary to the plan. Under the Federal Employees' Retirement System, 13 percent of salary is contributed by the Comptroller's Office and .8 percent of salary is contributed by the employee.

Although the Comptroller's Office contributes a portion of pension benefits under the Civil Service and Federal Employees' Retirement Systems for its employees and withholds the necessary payroll deductions from them, it has no liability for future payments to employees under these programs, and is not accountable for the assets of the Civil Service and Federal Employees' Retirement Systems nor does the Comptroller's Office have actuarial data concerning the accumulated plan benefits or the unfunded pension liability relating to its employees. These amounts are reported by OPM for the retirement systems and are not allocated to the individual employers.

Benefit Plans

The Comptroller's Office contributes up to 5 percent of base pay for participants in the Thrift Savings Plan under the Federal Employees' Retirement System. Contributions for the savings plan totalled $2,801,912 and $2,183,551 in 1992 and 1991, respectively. The Comptroller's Office also contributes for Social Security and Medicare benefits for all eligible employees.

Similar to Federal retirement plans, OPM, rather than the Comptroller's Office, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits (FEHB) plans and Federal Employees Group Life Insurance (FEGLI) plan. Comptroller's Office contributions for active employees who participate in the FEHB plans were $818,412 and $590,409 for 1992 and 1991, respectively. Comptroller's Office contributions for active employees who participate in the FEGLI plan were $80,172 and $69,834 for 1992 and 1991, respectively.

In addition, the Comptroller's Office maintains as an elective option, separate health and life insurance plans for its employees, who elect to participate in them rather than the plans offered to Federal employees. Comptroller's Office employees who retire can continue to participate in these health and life insurance plans, and the Comptroller's Office continues to make premium payments for these retired employees. Comptroller's Office contributions for active employees participating in the medical plan were $10,217,154 and $7,709,780 in 1992 and 1991, respectively. Comptroller's Office contributions for retirees participating in the medical plan were $1,253,301 and $1,115,884, in 1992 and 1991, respectively.

Statement of Financial Accounting Standard (SFAS) No. 106 *"Employers' Accounting for Postretirement Benefits Other Than Pensions"* is effective for fiscal years beginning after December 15, 1992. SFAS 106 requires the cost of postretirement benefits to be recognized systematically over the employees' service period. Unlike the medical and life plans offered to Federal employees, which are the liability of OPM, the Comptroller's Office is responsible for the liability associated with the medical and life insurance plans that it offers exclusively to its employees as an elective option. Therefore, the Comptroller's Office is subject to SFAS 106, and has developed a substantive plan for adoption of SFAS 106 beginning January 1, 1993. The Comptroller's Office has estimated its unrecognized transition obligation at January 1, 1993 to be $79,495,613. The Comptroller's Office has elected the deferred recognition method of recognizing this transition obligation and, accordingly, will amortize it on a straight-line basis over 20 years. The Comptroller's Office has estimated its periodic postretirement benefits expense for 1993 to be as follows:

Service Cost	$ 3,136,381
Interest Cost	6,696,662
Amortization of Transition Obligation	3,974,781
Net Postretirement Benefit Expense	$13,807,824

Note 7 - Additional Cash Flow Information

Supplemental information on cash flows and noncash transactions is as follows:

	1992	1991
Supplemental Cash Flow Information		
Interest paid during the year	$10,205,072	$ 5,256,518
Supplemental Noncash Financing Information		
Capital lease obligations entered into	$ -0-	$101,908,000

Note 8 - Contingencies

During 1991, the Comptroller's Office was involved in litigation arising from its insolvency declarations for twenty MCorp Banks. The cases noted below currently have been stayed pending the outcome of a reorganization plan. The cases pending on the outcome of the reorganization include:

- Campbell, Hudspeth, and Boatmen v. the Comptroller's Office, et al., plaintiffs in this case are former employees of the MCorp, and they have alleged violations of due process and conspiracy to deprive plaintiffs of equal protection of their civil rights. In these suits, plaintiffs seek over $500,000 in monetary damages plus attorneys fees.

- MCorp and MCorp Financial, Inc. v. Clarke and FDIC, plaintiffs are seeking $270 million in loss of franchise value for unlawful closure of 12 MBanks. A summary judgement was granted to MCorp finding the FDIC and the Comptroller's Office liable for damages caused by the closure of 12 MBanks. Additional briefing took place on the amount of damages. The Comptroller's Office will appeal any judgment against it, and believes that it will have a meritorious defense.

- MCorp v. United States, plaintiffs allege that the Comptroller's Office abused it's discretionary powers when the 12 MBanks were declared insolvent. This case has been brought under the Federal Tort Claims Act, and the plaintiffs are seeking $200 million in damages. The Comptroller's Office filed a motion to dismiss on September 23, 1992.

In March 1993, Branch Trustee of Bank of New England Corp v. United States was filed against the Comptroller's Office. This litigation arises from the insolvency declaration against the Bank of New England, N.A.. Exercising its cross-guaranty authority, FDIC imposed an assessment against Bank of New England affiliate Maine National Bank, which rendered that bank insolvent as well. The Trustee seeks $65 million in damages. The Comptroller's Office believes that it faces no liability in this action which was primarily directed toward the FDIC.

In addition to the above, the Comptroller's Office is a defendant, together with other bank supervisory agencies and other persons, in various litigation proceedings resulting from the closure of national banks. In the opinion of the Comptroller's legal staff, the Comptroller's Office will be able to defend successfully against these complaints and no material liability is expected to result therefrom.

Note 9 - Statement of Budget and Actual Expenses

The operations and financial statements of the Comptroller's Office are based upon a calendar year as opposed to the Federal government's fiscal year. Consequently, the budget and actual expense data contained in the Statement of Budget and Actual Expenses is based upon the Comptroller's Office's internal operating budget and this statement does not reflect the data contained in the Budget of the United States Government.

Index

Appraisals, real estate, reducing regulatory burden, 11, 28, 32
Assets, liabilities, and capital accounts of national banks, March 31, 1992, and March 31, 1993, 81
Automobile manufacturers, floor planning arrangements, interpretive letter, 49-51

Bank-leased real estate and OREO, interpretive letter, 46-47
Bank-related mutual fund, conflict of interest issues, interpretive letter, 55
Book value of securities at domestic offices of national banks, March 31, 1993, 89
Booker, Janice A., 35-40

Community Development Corporations, 35-40
Community Reinvestment Act, corporate decisions related to, 16
Corporate decisions of the OCC, 15-16
Credit availability, interagency policy statement, 11
Credit cards and related plans of national banks, outstanding balances, March 31, 1993, 91

Deposits of national banks, by state, March 31, 1993, 84
Disclosure of examination-related material in litigation, interpretive letter, 44-46
Discrimination, mortgage loan, 19, 23-25
Documentation of loans, interagency policy statement, 13

Electronic banking, interpretive letter, 43-44

Fair lending, 19, 23-25
Federal Deposit Insurance Corporation Improvement Act (FDICIA),
  speech, 41-43
  testimony, 33-34
Financial statements, Office of the Comptroller of the Currency, 101-113
Flood insurance requirements, interpretive letter, 54-55
Foreign and domestic loans and leases past due at national banks, by state, March 31, 1993, 92

Home Mortgage Disclosure Act (HMDA), 23-25, 33-34

Income and expenses of foreign and domestic offices and subsidiaries of national banks, March 31, 1993, 82
Interest expense of national banks, March 31, 1993, 87
Interest income of national banks, March 31, 1993, 85
Interpretations, January 1 to March 31, 1993, 41-56
Interpretive letters, 43-55

Lending limits, interpretive letter, 49-51
Loans of national banks by state, March 31, 1993, 83
Loans to small farms and businesses, President's program to increase, 11, 13, 20, 27-29, 31-34
Ludwig, Eugene A.:
  biography, inside front cover
  confirmation testimony, 19-20

Mergers, January 1-March 31, 1993:
  involving national banks and savings and loans, 72-73
  involving two or more operating banks, 61-72
Mortgage loan discrimination, examination for, 23-25
Mutual fund, bank-related , interpretive letter, 55

National banks:
  assets, liabilities, and capital accounts, March 31, 1992, and March 31, 1993, 81
  book value of securities at domestic offices, March 31, 1993, 89
  condition data:
    by asset size, 7
    by region, 9
    first quarter results, 1988-1993, 5
  community development activities, 35-40
  converted to state banks, July 1-December 31, 1992, 78
  credit cards and related plans, March 31, 1993, 91
  deposits, by state, March 31, 1993, 84
  income and expenses, March 31, 1993, 82
  interest expense, March 31, 1993, 87
  interest income, March 31, 1993, 85
  loans, by state, March 31, 1993, 83
  merged into state banks, July 1-December 31, 1992, 78
  mergers, 57-73
  noninterest and other expense, March 31, 1993, 88
    noninterest income, March 31, 1993, 86
  off-balance sheet items, 90
  operations, 1-10
  past due loans:
    by state, March 31, 1993, 92
    percent of total loans past due, by asset size, 93
  performance data:
    by asset size, 6
    by region, 8
    first quarter results, 1988-1993, 4
  structure of the system, 1992, 77
Nisenson, Richard, 1-10

Office of the Comptroller of the Currency
  community development corporation and investment program, 35-40

corporate decisions, first quarter, 1993, 15-16
financial statements, 1992, 95-113
interpretations, 41-56
merger decisions, 57-73
mortgage loan discrimination, new examination procedures for, 23-25
speeches and testimony, 17-40
Operations of national banks, 1-10

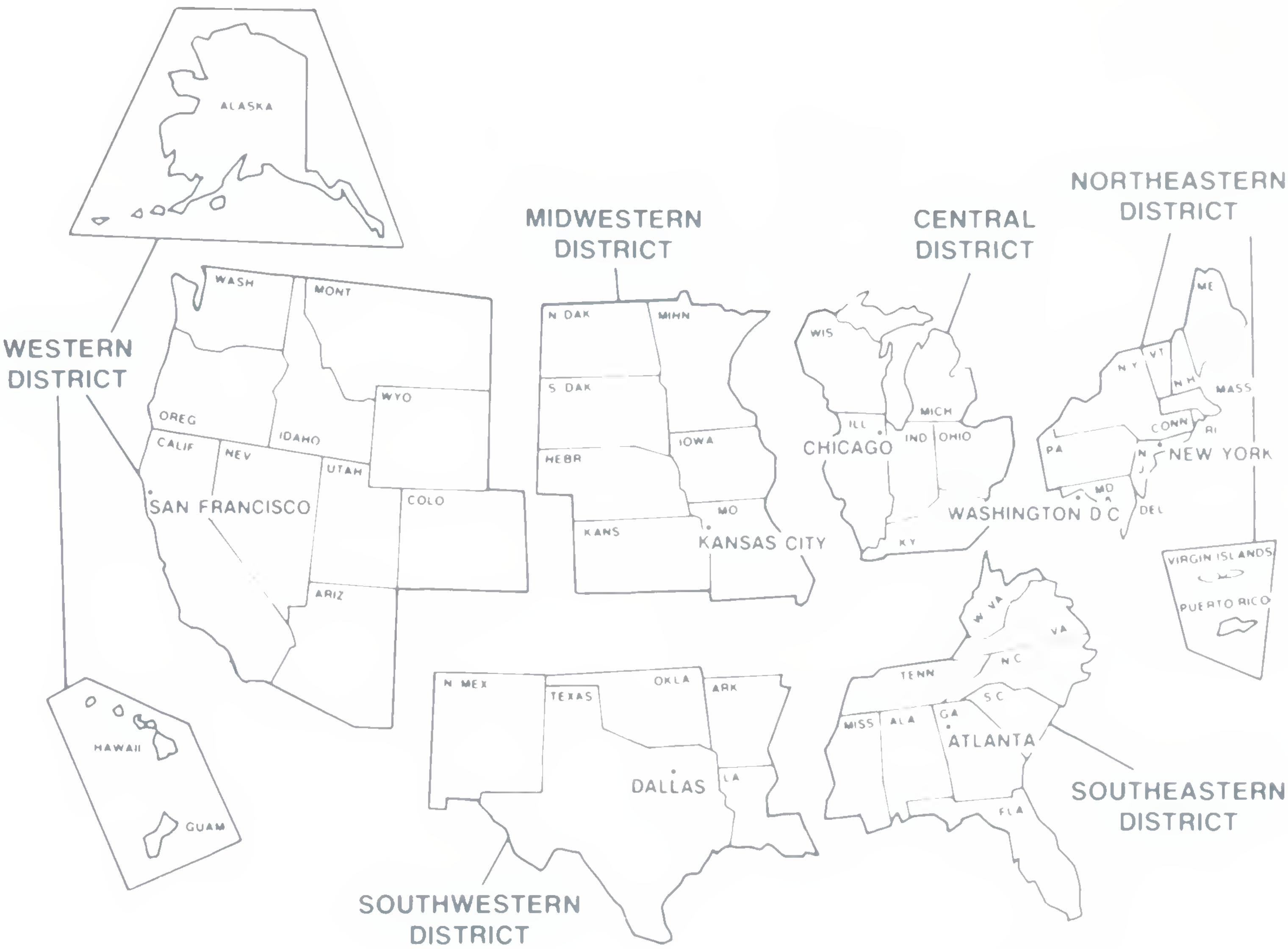
Past due loans:
by asset size of national banks, 93
consolidated foreign and domestic, by state, 92
Price Waterhouse, report on OCC financial statements, 1992, 95-113

Real estate, bank-leased, and OREO, interpretive letter, 46-47
Real estate lending and appraisals, interagency policy statement, 11

Small- and medium-sized businesses, interagency policy statements, 11, 13
Small business investment company and national bank investment in, interpretive letter, 53-54
Speeches and testimony, 17-40
State laws, applicability to national banks, interpretive letters, 47-49, 51-53
Statistical tables on the financial performance of national banks, 79-93
Steinbrink, Stephen R.:
speeches, 21-29
testimony, 31-34

Tables on the structure of the national banking system, 1992, 77
Trust interpretations, 55-56

12 U.S.C. 24(7), interpretive letters, 43-44, 49-51, 53-54
12 U.S.C. 29 E(2), interpretive letter, 46-47
12 U.S.C. 484 D, interpretive letter, 51-53
12 CFR 4.18 (c),interpretive letter, 44-46
12 CFR 4.19, interpretive letter, 44-46
12 CFR 9.9, trust interpretation, 56
12 CFR 22, interpretive letter, 54-55



Northeastern District

New York District Office
1114 Avenue of the Americas
Suite 3900
New York, NY 10036

(212) 819-9860

Central District

Chicago District Office
One Financial Place
Suite 2700
440 South LaSalle Street
Chicago, IL 60605

(312) 663-8000

Southwestern District

Dallas District Office
1600 Lincoln Plaza
500 North Akard
Dallas, TX 75201-3394

(214) 720-0656

Southeastern District

Atlanta District Office
Marquis One Tower
Suite 600
245 Peachtree Center Ave., N.E
Atlanta, GA 30303

(404) 659-8855

Midwestern District

Kansas City District Office
2345 Grand Avenue
Suite 700
Kansas City MO 64108-2683

(816) 556-1800

Western District

San Francisco District Office
50 Fremont Street
Suite 3900
San Francisco CA 94105

(415) [illegible]

Special Fourth Class Rate
Postage and Fees Paid by
Comptroller of the Currency
Permit No. G-8

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

OFFICIAL BUSINESS
Penalty for Private Use $300